Business Expense Deductions

There is one overriding rule on home business expenses: your total deduction for business use of your home cannot be more than the gross income you derive from the business use of your home. In other words, you may not have a loss resulting from the business use of your home.

1. Direct Expenses

   Expenses directly related to the business use of your home are fully deductible, unless it is used for day care services or for some other less-than-exclusive use.

2. Indirect Expenses

   Expenses you have for keeping up and running your entire home, benefiting both the business and personal parts of your home, are indirect expenses. Usually, real estate taxes, mortgage interest, casualty losses, rent, utilities and services, insurance, and repairs are indirect expenses. The business part of these expenses is deductible.

   Indirect expense deductions are figured by multiplying indirect expenses by the percentage of your home used for the business.

   Example: Utilities = $6,000 per year,
   and you use 10% of your home for business.
   $6,000 x 10% = $600

   Six hundred dollars is the allowable business deduction.

3. Depreciation

   Depreciation is another indirect expense but it is handled differently. Capital expenditures and depreciation may be figured in different ways.

   Accelerated Cost Recovery System (ACRS)

   For any property placed in use after 1980, you must use the ACRS. Using ACRS, tangible property is depreciated using three-year, five-year, ten-year, or fifteen-year recovery periods, depending on the type of property being depreciated. Homes fall into the ten-year or fifteen-year class, and most other business assets used will fall into the three or five-year classes.

   The deduction is figured by multiplying your "unadjusted basis" in the property by a specified percentage. (The "unadjusted basis" is basically your initial cost with no adjustment for depreciation.) The percentage varies from year to year during the recovery period. There are also options to take longer recovery periods under an alternate ACRS method. For further details obtain a copy of IRS publication 587, "Business Use of Your Home" by calling 1-800-542-7890.

Straight Line Depreciation

If you purchased your home before 1980, you will normally use straight line depreciation. This is figured by multiplying the lesser of the "adjusted basis" of your home or its fair market value at the time you change it to business use (excluding land value), by the part used for business, then dividing by its useful life.

To figure the "adjusted basis" at the time you change your home to business use, you add your original costs, plus any capital improvements, and subtract any deductions you may have claimed on the home. You must deduct the cost or value of the land, because land is not depreciable.

Example: You bought a home for $55,000 with land valued at $10,000. You use 10 percent of your home for business and estimate that the useful life of your home is 30 years. Your business depreciation is $150 per year.

$$\frac{(55{,}000 - 10{,}000) \times 10\%}{30} = \$150$$

NOTE: If you sell your home after taking a business deduction on the depreciation, you must recognize any capital gain or loss on that business portion regardless of whether you buy another home or not.

Tax booklets are available from the IRS toll free Zenith 3700.

from Operating a Home Business in
Washington State, Washington State Office
of Small Business, 101 General
Administration Building, Olympia, WA 98504,
May, 1985.

Collect Local Sales Taxes

Contact your local, city or town government concerning any local sales tax and a sales tax number.

Pay Social Security Taxes

Contact the IRS for information booklets. Toll free Zenith 3700.

Complete Personal Income Tax Forms

W-4 and W-2 forms are available from the IRS. Toll free Zenith 3700.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 1985 (0)

For the year January 1-December 31, 1985, or other tax year beginning , 1985, ending , 19 | OMB No. 1545-0074

Use IRS label. Otherwise, please print or type.

Your first name and initial (if joint return, also give spouse's name and initial): John & Mary | Last name: Dough | Your social security number: YYY YY YYYY

Present home address (number and street, including apartment number, or rural route): 2245 Flour Street | Spouse's social security number: ZZZ ZZ ZZZZ

City, town or post office, state, and ZIP code: Loaf, Alaska 99XXX | Your occupation: Baker-Self Employed | Spouse's occupation: Hot Cookie

Presidential Election Campaign ▶ Do you want $1 to go to this fund? ☐ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No
Note: Checking "Yes" will not change your tax or reduce your refund.

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here.
4 ☐ Head of household (with qualifying person). (See page 5 of Instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here.
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 6 of Instructions.)

Exemptions

Always check the box labeled Yourself. Check other boxes if they apply.

6a ☒ Yourself ☐ 65 or over ☐ Blind
b ☒ Spouse ☐ 65 or over ☐ Blind
Enter number of boxes checked on 6a and b ▶ 2

c First names of your dependent children who lived with you
Enter number of children listed on 6c ▶ 2

d First names of your dependent children who did not live with you (see page 6). (If pre-1985 agreement, check here ▶ ☐ .)
Enter number of children listed on 6d ▶

e Other dependents:

(1) Name	(2) Relationship	(3) Number of months lived in your home	(4) Did dependent have income of $1,040 or more?	(5) Did you provide more than one-half of dependent's support?

Enter number of other dependents ▶

f Total number of exemptions claimed (also complete line 36). Add numbers entered in boxes above ▶

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 4 of Instructions.

Please attach check or money order here.

Line	Description		Line	Amount
7	Wages, salaries, tips, etc. (Attach Form(s) W-2.)		7	
8	Interest income *(also attach Schedule B if over $400)*		8	150 00
9a	Dividends *(also attach Schedule B if over $400)* , 9b Exclusion			
c	Subtract line 9b from line 9a and enter the result		9c	
10	Taxable refunds of state and local income taxes, if any, from the worksheet on page 9 of Instructions		10	
11	Alimony received		11	
12	Business income or (loss) *(attach Schedule C)*		12	50,850 00
13	Capital gain or (loss) *(attach Schedule D)*		13	
14	40% of capital gain distributions not reported on line 13 (see page 9 of Instructions)		14	
15	Other gains or (losses) *(attach Form 4797)*		15	
16	Fully taxable pensions, IRA distributions, and annuities not reported on line 17 (see page 9)		16	
17a	Other pensions and annuities, including rollovers. Total received	17a		
b	Taxable amount, if any, from the worksheet on page 10 of Instructions		17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
19	Farm income or (loss) *(attach Schedule F)*		19	
20a	Unemployment compensation (insurance). Total received	20a		
b	Taxable amount, if any, from the worksheet on page 10 of Instructions		20b	
21a	Social security benefits (see page 10). Total received	21a		
b	Taxable amount, if any, from worksheet on page 11. { Tax-exempt interest }		21b	
22	Other income (list type and amount—see page 11 of Instructions) Alaska Permanent Fund Dividend		22	2,000 00
23	Add lines 7 through 22. This is your **total income** ▶		23	53,000 00

Adjustments to Income

(See Instructions on page 11.)

Line	Description	Line	Amount	Line	Amount
24	Moving expense *(attach Form 3903 or 3903F)*	24			
25	Employee business expenses *(attach Form 2106)*	25			
26	IRA deduction, from the worksheet on page 12	26	2,250 00		
27	Keogh retirement plan deduction	27			
28	Penalty on early withdrawal of savings	28			
29	Alimony paid (recipient's last name and social security no.)	29			
30	Deduction for a married couple when both work *(attach Schedule W)*	30			
31	Add lines 24 through 30. These are your **total adjustments** ▶			31	2,250 00

Adjusted Gross Income

Line	Description	Line	Amount
32	Subtract line 31 from line 23. This is your **adjusted gross income.** *If this line is less than $11,000 and a child lived with you, see "Earned Income Credit" (line 59) on page 16 of Instructions. If you want IRS to figure your tax, see page 13 of Instructions* ▶	32	50,750 00

87 100

Tax Computation (See Instructions on page 13.)	33	Amount from line 32 (adjusted gross income)				33	50,750	00
	34a	If you itemize, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 26. **Caution:** If you have unearned income and can be claimed as a dependent on your parents' return, check here ▶ ☐ and see page 13 of Instructions. Also see page 13 if you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien.				34a	0	
	b	If you do not itemize but you made charitable contributions, enter your cash contributions here. (If you gave $3,000 or more to any one organization, see page 14.)	34b	50	00			
	c	Enter your noncash contributions *(you must attach Form 8283 if over $500)*	34c					
	d	Add lines 34b and 34c. Enter the total	34d	50	00			
	e	Divide the amount on line 34d by 2. Enter the result here				34e	25	00
	35	Subtract line 34a or line 34e, whichever applies, from line 33				35	50,725	00
	36	Multiply $1,040 by the total number of exemptions claimed on line 6f (see page 14)				36	2,080	00
	37	**Taxable income.** Subtract line 36 from line 35. Enter the result (but not less than zero)				37	48,645	00
	38	Enter tax here. Check if from ☒ Tax Table, ☐ Tax Rate Schedule X, Y, or Z, or ☐ Schedule G				38	12,744	00
	39	Additional taxes. (See page 14 of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, or ☐ Form 5544				39		
	40	Add lines 38 and 39. Enter the total ▶				40	12,744	00
Credits (See Instructions on page 14.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41					
	42	Credit for the elderly and the permanently and totally disabled *(attach Schedule R)*	42					
	43	Residential energy credit *(attach Form 5695)*	43					
	44	Partial credit for political contributions for which you have receipts	44					
	45	Add lines 41 through 44. These are your total personal credits				45		
	46	Subtract line 45 from line 40. Enter the result (but not less than zero)				46	12,744	00
	47	Foreign tax credit *(attach Form 1116)*	47					
	48	General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☒ Form 5884, ☐ Form 6478	48	3,000	00			
	49	Add lines 47 and 48. These are your total business and other credits				49	3,000	00
	50	Subtract line 49 from line 46. Enter the result (but not less than zero) ▶				50	9,744	00
Other Taxes (Including Advance EIC Payments)	51	Self-employment tax *(attach Schedule SE)*				51	3,039	40
	52	Alternative minimum tax *(attach Form 6251)*				52		
	53	Tax from recapture of investment credit *(attach Form 4255)*				53		
	54	Social security tax on tip income not reported to employer *(attach Form 4137)*				54		
	55	Tax on an IRA *(attach Form 5329)*				55		
	56	Add lines 50 through 55. This is your **total tax** ▶				56	12,783	40
Payments Attach Forms W-2, W-2G, and W-2P to front.	57	Federal income tax withheld	57					
	58	1985 estimated tax payments and amount applied from 1984 return	58	12,000	00			
	59	Earned income credit (see page 16)	59					
	60	Amount paid with Form 4868	60					
	61	Excess social security tax and RRTA tax withheld (two or more employers)	61					
	62	Credit for Federal tax on gasoline and special fuels *(attach Form 4136)*	62					
	63	Regulated Investment Company credit *(attach Form 2439)*	63					
	64	Add lines 57 through 63. These are your **total payments** ▶				64	12,000	00
Refund or Amount You Owe	65	If line 64 is larger than line 56, enter amount **OVERPAID** ▶				65		
	66	Amount of line 65 to be **REFUNDED TO YOU** ▶				66		
	67	Amount of line 65 to be applied to your 1986 estimated tax ▶	67					
	68	If line 56 is larger than line 64, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1985 Form 1040" on it ▶ Check ▶ ☐ if Form 2210 (2210F) is attached. See page 17. **Penalty:** $				68	783	40

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature | Date | ▶ Spouse's signature (if filing jointly, BOTH must sign)

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No.	
		ZIP code	

SCHEDULE C
(Form 1040)
Department of the Treasury
Internal Revenue Service (0)

Profit or (Loss) From Business or Profession
(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ **Attach to Form 1040 or Form 1041.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No. 1545-0074

1985
09

Name of proprietor: John Dough

Social security number: YYY YY YYYY

A Principal business or profession, including product or service (see Instructions): Bakery -- Bread

B Principal business code from page 2:

C Business name and address ▶ John's Bakery
2245 Flour Street, Loaf, Alaska 99XXX

D Employer ID number: X X X X X X X X X

E Method(s) used to value closing inventory: (1) ☐ Cost (2) ☒ Lower of cost or market (3) ☐ Other (attach explanation)

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

		Yes	No
G	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation.		X
H	Did you deduct expenses for an office in your home?		X

Part I Income

1 a	Gross receipts or sales	1a	166,900	00
b	Less: Returns and allowances	1b	578	00
c	Subtract line 1b from line 1a and enter the balance here	1c	166,322	00
2	Cost of goods sold and/or operations (from Part III, line 8)	2	42,500	00
3	Subtract line 2 from line 1c and enter the **gross profit here**	3	123,822	00
4 a	Windfall Profit Tax Credit or Refund received in 1985 (see Instructions)	4a		
b	Other income	4b		
5	Add lines 3, 4a, and 4b. This is the **gross income** ▶	5	123,822	00

Part II Deductions

6	Advertising	250	00	22	Pension and profit-sharing plans		
7	Bad debts from sales or services (Cash method taxpayers, see Instructions)			23	Rent on business property	9,600	00
				24	Repairs	200	00
8	Bank service charges	72	00	25	Supplies (not included in Part III below)	500	00
9	Car and truck expenses	800	00	26	Taxes (Do not include Windfall Profit Tax here. See line 30.)	800	00
10	Commissions						
11	Depletion			27	Travel and entertainment		
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III below)	5,000	00	28	Utilities and telephone	6,250	00
				29	a Wages 15,000 00		
					b Jobs credit		
13	Dues and publications	200	00		c Subtract line 29b from 29a	15,000	00
14	Employee benefit programs	1,200	00	30	Windfall Profit Tax withheld in 1985		
15	Freight (not included in Part III below)	10,000	00	31	Other expenses (specify):		
16	Insurance	6,000	00		a		
17	Laundry and cleaning	4,000	00		b		
18	Legal and professional services	4,000	00		c		
19	Mortgage interest paid to financial institutions (see Instructions)	12,000	00		d		
					e		
20	Office expense	100	00		f		
21	Other interest				g		

32	Add amounts in columns for lines 6 through 31g. These are the **total deductions** ▶	32	75,972	00
33	**Net profit or (loss).** Subtract line 32 from line 5 and enter the result. If a profit, enter on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5). If a loss, you **MUST** go on to line 34	33	47,850	00

34 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this business (see Instructions)?" ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 6198**. If "No," enter the loss on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5).

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1	Inventory at beginning of year (if different from last year's closing inventory, attach explanation)	1	6,000	00
2	Purchases less cost of items withdrawn for personal use	2	42,000	00
3	Cost of labor (do not include salary paid to yourself)	3		
4	Materials and supplies	4		
5	Other costs	5		
6	Add lines 1 through 5	6	48,000	00
7	Less: Inventory at end of year	7	5,500	00
8	**Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter here and in Part I, line 2, above.	8	42,500	00

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

89 102

Codes for Principal Business or Professional Activity

Review the major business categories listed in **Step 1** and find the one which best describes your type of business or professional activity. The appropriate category will direct you to specific activity codes in **Step 2**. Select the activity code that identifies the business or profession that is the principal source of your sales or receipts. Enter this 4 digit code on line B on page 1 of Schedule C. (**Note**: *If your principal source of income is from farming activities, you should file Schedule F (Form 1040), Farm Income and Expenses.*)

Step 1

Major Business Categories	**See Specific Activity in Step 2**
Production (construction, manufacturing, mining), including custom or contract production services	A
Agricultural services (excluding farming), forestry, and fishing	B
Wholesale trade—selling goods you **do not produce** to businesses and institutions, including sales to professional practices and for farm production	C
Retail trade—selling goods you **do not produce** to individuals and households	D
Serving food or drink	D
Real estate, insurance, finance, and related services	E
Transportation, communications, public utilities, and related services	F
Providing personal, professional, and business services not included in the above categories	G

Step 2

A Production (Including Custom or Contract Production Services)

Code	
	Construction and building trades
0018	Operative builders (building for own account)
	General contractors
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)
	Building trade contractors, including repairs
0232	Plumbing, heating, air conditioning
0257	Painting, paper hanging, decorating
0273	Electrical work
0299	Masonry, plastering, stone, tile
0414	Carpentering and flooring
0430	Roofing and sheet metal work
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, demolition, etc.)
	Manufacturing, including printing and publishing
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footware, handbags, etc
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries
	Mining and mineral extraction
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining

B Agricultural Services, Forestry, and Fishing

Code	
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
2212	Horticulture and landscaping
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping

C Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Code	
	Durable goods, including machinery, equipment, wood, metals, etc.
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission
	Nondurable goods, including food, fiber, chemicals, etc.
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission

D Retail Trade—Selling Goods to Individuals and Households

Code	
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling
	Selling From Store, Showroom, or Other Fixed Location
	Food, beverages, and drugs
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores
	Automotive and service stations
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations
	General merchandise, apparel, and furniture
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Mens' and boys' clothing stores
3913	Womens' ready-to-wear stores
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
4119	Household appliance stores
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)
4333	Music and record stores
	Building, hardware, and garden supply
4416	Building materials dealers
4432	Paint, glass, and wallpaper stores
4457	Hardware stores
4473	Nurseries and garden supply stores
	Other retail stores
4614	Used merchandise and antique stores
4630	Gift, novelty, and souvenir shops
4655	Florists
4671	Jewelry stores
4697	Sporting goods and bicycle shops
4812	Boat dealers
4838	Hobby, toy, and game shops
4853	Camera and photo supply stores
4879	Optical goods stores
4895	Luggage and leather goods stores
5017	Book stores, excluding newsstands
5033	Stationery stores
5058	Fabric and needlework stores
5074	Mobile home dealers
5090	Fuel dealers (except gasoline)
5884	Other retail stores

E Real Estate, Insurance, Finance, and Related Services

Code	
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers and investment services
5777	Other real estate, insurance, and financial activities

F Transportation, Communications, Public Utilities, and Related Services

Code	
6114	Taxicabs
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.

G Services (Providing Personal, Professional, and Business Services)

Code	
	Hotels and other lodging places
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks
	Laundry and cleaning services
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)
	Business and/or personal services
7617	Legal services (or lawyer)
7633	Income tax preparation
7658	Accounting and bookkeeping
7674	Engineering, surveying, and architectural
7690	Management, consulting, and public relations
7716	Advertising, except direct mail
7732	Employment agencies and personnel supply
7757	Computer and data processing, including repair and leasing
7773	Equipment rental and leasing (except computer or automotive)
7914	Investigative and protective services
7880	Other business services
	Personal services
8110	Beauty shops (or beautician)
8318	Barber shop (or barber)
8334	Photographic portrait studios
8516	Shoe repair and shine services
8532	Funeral services and crematories
8557	Physical fitness facilities
8714	Child day care
8730	Teaching or tutoring
8755	Counseling (except health practitioners)
8771	Ministers and chaplains
6882	Other personal services
	Automotive services
8813	Automotive rental or leasing, without driver
8839	Parking, except valet
8854	General automotive repairs
8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
8896	Other automotive services (wash, towing, etc.)
	Miscellaneous repair, except computers
9019	TV and audio equipment repair
9035	Other electrical equipment repair
9050	Reupholstery and furniture repair
2881	Other equipment repair
	Medical and health services
9217	Physicians and surgeons (MD's)
9233	Dentists
9258	Osteopathic physicians and surgeons
9274	Chiropractors
9290	Optometrists
9415	Registered and practical nurses
9431	Other licensed health practitioners
9456	Dental laboratories
9472	Nursing and personal care facilities
9886	Clinics and other health services
	Amusement and recreational services
9613	Video tape rental stores
9639	Motion picture theaters
9654	Other motion picture and TV activities
9670	Bowling alleys and pool parlors
9696	Professional sports and racing, including promoters and managers
9811	Theatrical performers, musicians, agents, producers, and related services
9837	Other amusement and recreation services
8888	Unable to classify—Explain

☆ U.S. GOVERNMENT PRINTING OFFICE: 1985 — 463-063 / 87-0367773

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service (O)

Computation of Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1985
18

Name of **self-employed** person (as shown on social security card): John Dough

Social security number of **self-employed** person ▶ YYY : YY : YYYY

Part I Regular Computation of Net Earnings From Self-Employment

Note: *If you performed services for certain churches or church-controlled organizations and you are not a minister or a member of a religious order, see the instructions.*

1 Net farm profit or (loss) from Schedule F (Form 1040), line 39, and farm partnerships, Schedule K-1 (Form 1065), line 13a	1		
2 Net profit or (loss) from Schedule C (Form 1040), line 33, Schedule K-1 (Form 1065), line 13a (other than farming), and Form W-2 wages of $100 or more from an electing church or church-controlled organization. (See instructions for other income to report.)	2	47,850	00

Note: ☐ *Check here if you are* ***exempt*** *from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed* ***Form 4361***.
See instructions for kinds of income to report. If you have other earnings of **$400** or more that are subject to self-employment tax, include those earnings on line 2.

Part II Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE")

Generally, this part may be used **only** if you meet any of the following tests:

A Your gross farm income (Schedule F (Form 1040), line 12) was not more than $2,400; or
B Your gross farm income (Schedule F (Form 1040), line 12) was more than $2,400 and your net farm profits (Schedule F (Form 1040), line 39) were less than $1,600; or
C Your net nonfarm profits (Schedule C (Form 1040), line 33) were less than $1,600 and also less than two-thirds (⅔) of your gross nonfarm income (Schedule C (Form 1040), line 5).

See instructions for other limitations.

3 Maximum income for optional methods	3	1,600	00
4 Farm Optional Method—If you meet test A or B above, enter: the smaller of two-thirds (⅔) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 13b; or $1,600	4		
5 Subtract line 4 from line 3	5		
6 Nonfarm Optional Method—If you meet test C above, enter: the smallest of two-thirds (⅔) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c (other than farming); or $1,600; or, if you elected the farm optional method, the amount on line 5	6		

Part III Computation of Social Security Self-Employment Tax

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4	7		
8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6	8	47,850	00
9 Add lines 7 and 8. If less than $400, do not fill in the rest of the schedule because you are not subject to self-employment tax. (**Exception:** If this line is less than $400 and you are an employee of an electing church or church-controlled organization, complete the schedule unless this line is a loss. See instructions.)	9	47,850	00
10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (Tier 1) for 1985 is	10	32,400	00
11 a Total social security wages and tips from Forms W-2 and railroad retirement compensation (Tier 1). **Note:** *U.S. Government employees whose wages are only subject to the 1.35% hospital insurance benefits tax (Medicare) and employees of certain church or church-controlled organizations should not include those wages on this line (see instructions)* — 11a: 0			
b Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (Tier 1) — 11b: 0			
c Add lines 11a and 11b	11c		
12 a Subtract line 11c from line 10.	12a	32,400	00
b Enter your "qualified" U.S. Government wages if you are required to use the worksheet in Part III of the instructions. 12b			
c Enter your Form W-2 wages from an electing church or church-controlled organization. 12c			
13 Enter the smaller of line 9 or line 12a	13	32,400	00
If line 13 is $39,600, fill in $4,672.80 on line 14. Otherwise, multiply line 13 by .118 and enter the result on line 14		.0935	
14 Self-employment tax. Enter this amount on Form 1040, line 51	14	3,029	40

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

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91 104

Goal 7.0 To understand insurance

Competencies:

7.1 Identify types of insurance

7.2 Determine the best insurance coverage and rates

Insurance Checklist for Small Business

U.S. Small Business Administration
Number 2.018

Summary

There may be ways of strengthening your insurance program that have not occurred to you. The purpose of this *Aid* is to help you find out. To this end, a checklist is provided that will help you identify areas in which improvement may be possible. It will also serve as a guide for the discussions you should have with a qualified agent, broker, or other insurance counselor.

The points covered are grouped under three general heads: coverages that are essential for most businesses: coverages that are desirable for many firms but not absolutely necessary: and coverages for employee benefits.

The checklist is followed by a brief discussion of four basic steps that are necessary for good insurance management: (1) Recognize the risks to which you are exposed. (2) Follow the guides for buying insurance economically. (3) Have a plan. (4) Get professional advice.

Some small business owners look on insurance as if it were a sort of tax. They recognize that it is necessary but consider it a burdensome expense that should be kept at a minimum. Is this view justified?

Not if you take a more conservative approach. You can use insurance to get many positive advantages as well as the negative one of avoiding loses. Used correctly, insurance can contribute a great deal to your success by reducing the uncertainties under which you operate. It can reduce employee turnover, improve your credit at the bank, make it easier to sell to customers on favorable terms, help keep your business going in case an insured peril interrupts operations. The potential benefits of good insurance management make it well worth your study and attention.

How It Works

Insurance has been defined as a system in which "winners pay losers." Those who are lucky enough to avoid loss contribute through premium payments to the unlucky ones who do suffer loss. If you never collect from your insurance, consider yourself ahead, because then you are one of the winners. If you suffer a loss for which you are insured, you have the security of knowing that the other members of the insurance system will relieve you of most of your burden. In this sense, you come out ahead either way. Your premiums are the price you pay for the freedom from worry about economic loss from conditions outside your control.

But insurance itself becomes the subject of worry for many small business owners. This *Aid* is designed to help you lessen this worry.

A Checklist

The points covered in the checklist are grouped under three general classes of insurance: (1) coverages that are essential for most businesses, (2) coverages that are desirable for many firms but not absolutely necessary, and (3) coverages for employee benefits. For each of the statements, put a check in the first answer column if you understand the statement and how it affects your insurance program. Otherwise, check the second column. Then study your policies with these points in mind and discuss any questions you still have with your agent.

Essential Coverages

Four kinds of insurance are essential: *fire insurance, liability insurance, automobile insurance,* and *workers' compensation insurance.* In some areas and in some kinds of businesses, crime insurance, which is discussed under "Desirable Coverages," is also essential.

Are you certain that all the following points have been given full consideration in your insurance program?

Fire Insurance

	No action needed	Look into this
1. You can add other perils—such as windstorm, hail, smoke, explosion, vandalism, and malicious mischief—to your basic fire insurance at a relatively small additional cost.	___	___
2. If you need comprehensive coverage, your best buy may be one of the all-risk contracts that offer the broadest available protection for the money.	___	___

No action needed | Look into this

3. The insurance company may indemnify you—that is, compensate you for your losses—in any one of several ways: (1) It may pay actual cash value of the property at the time of loss. (2) It may repair or replace the property with material of like kind and quality. (3) It may take *all* the property at the agreed or appraised value and reimburse you for your loss. ____ ____

4. You can insure property you don't own. You must have an insurable interest—a financial interest—in the property *when a loss occurs* but not necessarily at the time the insurance contract is made. For instance, a repair shop or drycleaning plant may carry insurance on customers' property in the shop, or you may hold a mortgage on a building and insure the building although you don't own it. ____ ____

5. When you sell property, you cannot assign the insurance policy along with the property unless you have permission from the insurance company. ____ ____

6. Even if you have several policies on your property, you can still collect only the amount of your actual cash loss. All the insurers share the payment proportionately. Suppose, for example, that you are carrying two policies—one for $20.000 and one for $30.000—on a $40.000 building, and fire causes damage to the building amounting to $12.000. The $20.000 policy will pay $4.800: that is,

$\frac{20.000}{50.000}$, or $\frac{2}{5}$ of $12.000.

The $30.000 policy will pay $7.200:

that is $\frac{30.000}{50.000}$, or $\frac{3}{5}$ of $12.000. ____ ____

7. Special protection other than the standard fire insurance policy is needed to cover the loss by fire of accounts, bills, currency, deeds, evidence of debt, and money and securities. ____ ____

No action needed | Look into this

8. If an insured building is vacant or unoccupied for more than 60 consecutive days, coverage is suspended unless you have a special endorsement to your policy canceling this provision. ____ ____

9. If, either before or after a loss, you conceal or misrepresent to the insurer any material fact or circumstance concerning your insurance or the interest of the insured, the policy may be voided. ____ ____

10. If you increase the hazard of fire, the insurance company may suspend your coverage even for losses not originating from the increased hazard. (An example of such a hazard might be renting part of your building to a drycleaning plant.) ____ ____

11. After a loss, you must use all reasonable means to protect the property from further loss or run the risk of having your coverage canceled. ____ ____

12. To recover your loss, you must furnish within 60 days (unless an extension is granted by the insurance company) a complete inventory of the damaged, destroyed, and undamaged property showing in detail quantities, costs, actual cash value, and amount of loss claimed. ____ ____

13. If you and the insurer disagree on the amount of loss, the question may be resolved through special appraisal procedures provided for in the fire-insurance policy. ____ ____

14. You may cancel your policy without notice at any time and get part of the premium returned. The insurance company also may cancel at any time with a 5-day written notice to you. ____ ____

15. By accepting a coinsurance clause in your policy, you get a substantial reduction in premiums. A coinsurance clause states that you must carry insurance equal to 80 or 90 percent of the value of the insured property. If you carry less than this, you cannot collect the full amount of your loss, even if the loss is small. What percent of your loss you can collect will depend on what percent of the full value of the property you have insured it for. ____ ____

No action needed | Look into this

16. If your loss is caused by someone else's negligence, the insurer has the right to sue this negligent third party for the amount it has paid you under the policy. This is known as the insurer's right of subrogation. However, the insurer will usually waive this right upon request. For example, if you have leased your insured building to someone and have waived your right to recover from the tenant for any insured damages to your property, you should have your agent request the insurer to waive the subrogation clause in the fire policy on your leased building. ___ ___

17. A building under construction can be insured for fire, lightning, extended coverage, vandalism, and malicious mischief. ___ ___

Liability Insurance

1. Legal liability limits of $1 million are no longer considered high or unreasonable even for a small business. ___ ___

2. Most liability policies require you to notify the insurer immediately after an incident on your property that might cause a future claim. This holds true no matter how unimportant the incident may seem at the time it happens. ___ ___

3. Most liability policies, in addition to *bodily* injuries, may now cover *personal* injuries (libel, slander, and so on) *if* these are specifically insured. ___ ___

4. Under certain conditions, your business may be subject to damage claims even from trespassers. ___ ___

5. You may be legally liable for damages even in cases where you used "reasonable care." ___ ___

6. Even if the suit against you is false or fraudulent, the liability insurer pays court costs, legal fees, and interest on judgments in *addition to* the liability judgments themselves. ___ ___

7. You can be liable for the acts of others under contracts you have signed with them. This liability is insurable. ___ ___

No action needed | Look into this

8. In some cases you may be held liable for fire loss to property of others in your care. Yet, this property would normally not be covered by your fire or general liability insurance. This risk can be covered by fire legal liability insurance or through requesting subrogation waivers from insurers of owners of the property. ___ ___

Automobile Insurance

1. When an employee or a subcontractor uses a car on your behalf, you can be legally liable even though you don't own the car or truck. ___ ___

2. Five or more automobiles or motorcycles under one ownership and operated as a fleet for business purposes can generally be insured under a low-cost fleet policy against both material damage to your vehicle and liability to others for property damage or personal injury. ___ ___

3. You can often get deductibles of almost any amount—say $250 or $500—and thereby reduce your premiums. ___ ___

4. Automobile medical-payments insurance pays for medical claims, including your own, arising from automobile accidents regardless of the question of negligence. ___ ___

5. In most States, you must carry liability insurance or be prepared to provide other proof (surety bond) of financial responsibility when you are involved in an accident. ___ ___

6. You can purchase uninsured-motorist protection to cover your own bodily-injury claims from someone who has no insurance. ___ ___

7. Personal property stored in an automobile and not attached to it (for example, merchandise being delivered) is not covered under an automobile policy. ___ ___

Worker's Compensation

1. Federal and common law requires that an employer (1) provide employees a safe

No action needed | Look into this

place to work, (2) hire competent fellow employees, (3) provide safe tools, and (4) warn employees of an existing danger. ___ ___

2. If an employer fails to provide the above, the employer is liable for damage suits brought by an employee and possible fines or prosecution. ___ ___

3. State law determines the level or type of benefits payable under workers' compensation policies. ___ ___

4. Not all employees are covered by workers' compensation laws. The exceptions are determined by State law and therefore vary from State to State. ___ ___

5. In nearly all States, you are now legally *required* to cover your workers under workers' compensation. ___ ___

6. You can save money on workers' compensation insurance by seeing that your employees are properly classified. ___ ___

7. Rates for workers' compensation insurance vary from 0.1 percent of the payroll for "safe" occupations to about 25 percent or more of the payroll for very hazardous occupations. ___ ___

8. Most employers in most States can reduce their workers' compensation premium cost by reducing their accident rates below the average. They do this by using safety and loss-prevention measures. ___ ___

Desirable Coverages

Some types of insurance coverage, while not absolutely essential, will add greatly to the security of your business. These coverages include business-interruption insurance, crime insurance, glass insurance, and rent insurance.

Business Interruption Insurance

1. You can purchase insurance to cover fixed expenses that would continue if a fire shut down your business—such as salaries to key employees, taxes, interest, depreciation, and utilities—as well as the profits you would lose. ___ ___

No action needed | Look into this

2. Under properly written contingent business-interruption insurance, you can also collect if fire or other peril closes down the business of a supplier or customer and this interrupts your business. ___ ___

3. The business-interruption policy provides payments for amounts you spend to hasten the reopening of your business after a fire or other insured peril. ___ ___

4. You can get coverage for the extra expenses you suffer if an insured peril, while not actually closing your business down, seriously disrupts it. ___ ___

5. When the policy is properly endorsed, you can get business-interruption insurance to indemnify you if your operations are suspended because of failure or interruption of the supply of power, light, heat, gas, or water furnished by a public utility company. ___ ___

Crime Insurance

1. Burglary insurance excludes such property as accounts, fur articles in a showcase window, and manuscripts. ___ ___

2. Coverage is granted under burglary insurance only if there are visible marks of the burglar's forced entry. ___ ___

3. Burglary insurance can be written to cover, in addition to money in a safe, inventoried merchandise and damage incurred in the course of a burglary. ___ ___

4. Robbery insurance protects you from loss of property, money, and securities by force, trickery, or threat of violence on *or off* your premises. ___ ___

5. A comprehensive crime policy written just for small business owners is available.

No action needed   Look into this

In addition to burglary and robbery, it covers other types of loss by theft, destruction, and disappearance of money and securities. It also covers thefts by your employees. ____ ____

6. If you are in a high-risk area and cannot get insurance through normal channels without paying excessive rates, you may be able to get help through the federal crime insurance plan. Your agent or State Insurance Commissioner can tell you where to get information about these plans.

Glass Insurance

1. You can purchase a special glass-insurance policy that covers all risk to plate-glass windows, glass signs, motion-picture screens, glass brick, glass doors, showcases, countertops, and insulated glass panels. ____ ____

2. The glass-insurance policy covers not only the glass itself, but also its lettering and ornamentation, if these are specifically insured, and the costs of temporary plates or boarding up when necessary. ____ ____

3. After the glass has been replaced, full coverage is continued without any additional premium for the period covered. ____ ____

Rent Insurance

1. You can buy rent insurance that will pay your rent if the property you lease becomes unusuable because of fire or other insured perils and your lease calls for continued payments in such a situation. ____ ____

2. If you own property and lease it to others, you can insure against loss if the lease is canceled because of fire and you have to rent the property again at a reduced rental. ____ ____

Employee Benefit Coverages

Insurance coverages that can be used to provide employee benefits include group life insurance, group health insurance, disability insurance, and retirement income. Key-man insurance protects the company against financial loss caused by the death of a valuable employee or partner.

No action needed   Look into this

Group Life Insurance

1. If you pay group-insurance premiums and cover all employees up to $50,000, the cost to you is deductible for Federal income-tax purposes, and yet the value of the benefit is not taxable income to your employees. ____ ____

2. Most insurers will provide group coverages at low rates even if there are 10 or fewer employees in your group. ____ ____

3. If the employees pay part of the cost of the group insurance, State laws require that 75 percent of them must elect coverage for the plan to qualify as group insurance. ____ ____

4. Group plans permit an employee leaving the company to convert group-insurance coverage to a private plan, at the rate for his/her age, without a medical exam, within 30 days after leaving the job. ____ ____

Group Health Insurance

1. Group health insurance costs much less and provides more generous benefits for the worker than individual contracts would. ____ ____

2. If you pay the entire cost, individual employees cannot be dropped from a group plan unless the entire group policy is canceled. ____ ____

3. Generous programs of employee benefits, such as group health insurance, tend to reduce labor turnover. ____ ____

Disability Insurance

1. Workers' compensation insurance pays an employee only for time lost because of

No action needed | Look into this

work injuries and work-related sickness—not for time lost because of disabilities incurred off the job. But you can purchase, at a low premium, insurance to replace the lost income of workers who suffer short-term or long-term disability not related to work. ____ ____

2. You can get coverage that provides employees with an income for life in case of permanent disability resulting from work-related sickness or accident. ____ ____

Retirement Income

1. If you are self-employed, you can get an income tax deduction for funds used for retirement for you and your employees through plans of insurance or annuities approved for use under the Employees Retirement Income Security Act of 1974 (ERISA).

2. Annuity contracts may provide for variable payments in the hope of giving the annuitants some protection against the effects of inflation. Whether fixed or variable, an annuity can provide retirement income that is guaranteed for life. ____ ____

Key-Man Insurance

1. One of the most serious setbacks that can come to a small company is the loss of a key employee. But your key employee can be insured with life insurance and disability insurance owned by and payable to your company. ____ ____

2. Proceeds of a key-man policy are not subject to income tax, but premiums are not a deductible business expense. ____ ____

3. The cash value of key-man insurance which accumulates as an asset of the business, can be borrowed against and the interest and dividends are not subject to income tax as long as the policy remains in force. ____ ____

Organizing Your Insurance Program

A sound insurance protection plan is just as important to the success of your business as good financing, marketing, personnel management, or any other business function. And like the other functions, good risk and insurance management is not achieved by accident, but by organization and planning. A lifetime of work and dreams can be lost in a few minutes if your insurance program does not include certain elements. To make sure that you are covered, you should take action in four distinct ways:

1. Recognize the various ways you can suffer loss.
2. Following the guides for buying insurance economically.
3. Organize your insurance-management program.
4. Get professional advice.

Recognize the risks. The first step toward good protection is to recognize the risks you face and make up your mind to do something about them. Wishful thinking or an it-can't-happen-to-me attitude won't lessen or remove the possibility that a ruinous misfortune may strike your business.

Some businesses will need coverages not mentioned in the checklist. For example, if you use costly professional tools or equipment in your business, you may need special insurance covering loss or damage to the equipment and/or business interruption resulting from not being able to use the equipment.

Study insurance costs. Before you purchase insurance, investigate the methods by which you can reduce the costs of your coverage. Be sure to cover the following points:

1. Decide what perils to insure against and how much loss you might suffer from each.

2. Cover your largest loss exposure first.

3. Use as high a deductible as you can afford.

4. Avoid duplication in insurance.

5. Buy in as large a unit as possible. Many of the "package policies" are very suitable for the types of small businesses they are designed to serve, and often they are the only way a small business can get really adequate protection.

6. Review your insurance program periodically to make sure that your coverage is adequate and your premiums are as low as possible consistent with sound protection.

Have a plan. To manage your insurance program for good coverage at the lowest possible cost, you will need a definite plan that undergirds the objectives of your business. Here are some suggestions for good risk and insurance management:

1. Write down a clear statement of what you expect insurance to do for your firm.

2. Select only one agent to handle your insurance. Having more than one may spread and weaken responsibility.

3. If an employee or partner is going to be responsible for your insurance program, be sure he/she understands the responsibility.

4. Do everything possible to prevent losses and to keep those that do occur as low as possible.

5. Don't withhold from your insurance agent important information about your business and its exposure to loss. Treat your agent as a professional helper.

6. Don't try to save money by underinsuring or by not covering some perils that could cause loss, even though you think the probability of their occuring is very small. If the probability of loss is really small, the premium will also be small.

7. Keep complete records of your insurance policies, premiums paid, losses, and loss recoveries. This information will help you get better coverage at lower costs in the future.

8. Have your property appraised periodically by independent appraisers. This will keep you informed of what your exposures are, and you will be better able to prove what your actual losses are if any occur.

Get professional advise about your insurance. Insurance is a complex and detailed subject. A professionally qualified agent, broker, or consultant can explain the options, recommend the right coverage, and help you avoid financial loss.

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Goal 8.0 To understand purchasing

Competencies:

- 8.1 Locate and select suppliers
- 8.2 Identify purchasing agreements and discounts
- 8.3 Determine shipping methods
- 8.4 Balance quantity purchasing with storage and inventory considerations
- 8.5 Keep inventory records

Understand Purchasing

As the owner of a home-based business you will need to understand the purchasing requirements of your particular business. You will need to develop an effective purchasing system that meets the demands of operating your business, whether it sells products or services. Service businesses, such as a dressmaking service, sell services, not products, so only a limited inventory is needed to run the business.

Products being stored waiting to be sold or utilized in production are called inventory. The inventory represents money that is "tied up" or invested in the business. This is money that is not free to be used for other business needs. The money "tied up" in inventory will not be regained until a sale is made. This is why home business owners must understand the needs of their particular business. After careful thought and thorough investigation an inventory system should be tailored to effectively supply the requirements of the business operation.

An important rule to remember when making purchases is to have access to multiple sources. If you can, establish at least two or more supply sources for every item of supply or service. Consider, on the one hand, that with multiple supply sources chances are increased that you will be able to get the best price and on-time delivery. On the other hand, suppliers seem to favor loyal customers with preferential treatment. Suppliers who know you personally can be a source of helpful information. For example, they may be able to give you useful news or special bargain offers, or tell you about significant developments in your business area.

The Chamber of Commerce in your region may provide access to information regarding manufacturers, wholesalers, and suppliers in your area. Set up your purchasing system with either manufacturers or wholesalers who will have goods that will satisfy your customers' standards.

Selecting Suppliers

Businesses selling goods to other businesses are called suppliers. A home-based business owner may be able to purchase directly from a manufacturer who makes the kind of product needed for use in his or her business enterprise. Products needed for use in a business may be purchased from a wholesaler or middleman who buys from the manufacturer and sells to retailers. Wholesalers customarily sell goods cheaper than retailers, but usually only in large quantities.

Many suppliers offer credit terms which present the business person with the option of getting a discount by paying cash at the time of purchase. No discount may be given in exchange for paying the bill within a specified time period. For the privilege of paying over an extended period of time, the home entrepreneur can expect to pay an interest charge.

Buying Policy--Decision Factors

When planning to purchase supplies and products for your home-based business, you must base your buying decison on: What, Where, How, and When.

What To Buy?

Modern marketing programs are built around the "marketing concept," which directs managers or owners to focus their efforts on identifying and satisfying their customer's needs--at a profit. To use the marketing concept, a home-based business should:

Determine the needs of their customers.
Analyze their competitive advantages.
Select specific markets to serve.
Determine how to satisfy the needs.

To decide what goods you need in your home-based business, you will need to study the customers you want to reach; then decide what they want and need.

Service oriented businesses need to decide which suppliers have the products and services that will help their small business perform in the best possible way. Order products and materials that reflect the customer's needs.

How Much To Buy?

In order to save money, the quantities purchased should be as small as possible to comfortably satisfy the needs of your business, yet not so small that you are left unsupplied at a critical moment. Too large a purchase ties up money that might be more productively used elsewhere to enable your business to function more effectively. You don't want money tied up for too long a time in goods waiting to be used or sold. You have to learn how to do a "balancing act." It takes a little experience to get to know just how much is the right amount.

When To Buy?

As a home-based business owner, you will probably have to buy supplies several weeks or months before you need them, expecially if you have to allow time for a long distance delivery. Some goods needed in your business everyday should be ordered regularly. Other goods related to the season should be ordered only at certain times of the year. Having a good system for timing orders is very important for your business.

Where To Buy

As a home-based business person, you have to decide which supplier is best for you. Quality, price and service are three things to consider carefully when choosing a supplier.

Quality

--Satisfy the customer's taste.
--Satisfy the customer's budget.
--Satisfy the customer's standard of acceptable quality.

Price

--Make a sales effort to sell quality.
--Bring the advantages of quality to the customers' attention; customers usually favor quality over low price if the advantages of quality are brought to their attention.
--Find the supplier offering the best quality at the lower price.
--Reflect the supplier's cost in your price to the customer.
--Consider all the costs of the business operation when setting prices.
--Set prices so you make a profit.

The Inventory System

Home entrepreneurs may wish to study several inventory techniques, and then decide upon a system that will best satisfy their style of business operation. The trial and error method will lead the way to the most efficient system.

Here are some points to consider incorporating into your inventory system.

Keep a running inventory, using a card file for current data.

Keep records to aid in the prompt and systematic filling of customer orders.

Account for all your business related items, to help you determine prices and taxes.

Keep accurate records of what inventory is stored, where it is stored, and why it is stored.

Maintain your inventory in good condition; damaged inventory results in economic loss.

Check your inventory once or twice every year:

Determine the amount of inventory.
Determine the quality of inventory items.
Make decisions about product changes.
Determine what is stored.
Decide what to do with stored items.

You will want to keep an inventory card for each product item used in your business or sold by your business. As you receive a shipment from a supplier, make up an inventory card. The card should record:

- what the item is
- who is the supplier
- when you received the shipment
- how many items were received

On the following page is an example of an inventory card format that could be useful to a small business.

Daily, as sales are made, record how many items have been sold; figure how many are still in stock.

Original Quantity - Sales = Amount Remaining

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

Sample of Inventory Card

Inventory Card

Item: Skeins of wool - blue color

Supplier: John Johnson

Reorder Point: 60 skeins **Reorder Amount:** 200 skeins

Date Order Placed: September 10

Amount Received		Amount Sold		Amount Remaining	
Date	Quantity	Date	Quantity	Date	Quantity
Sept. 15	200	Sept 16	10	Sept 16	190
		Sept 17	15	Sept 17	175
		Sept 18	9	Sept 18	166
		Sept 19	7	Sept 19	159
		Sept 20	12	Sept 20	147

Goal 9.0 To understand selling

Competencies:

9.1 Describe different marketing channels:

- consignment
- mail order
- word of mouth
- door to door
- appointment
- parties
- telephone solicitation
- fairs, shows, etc.
- yellow pages
- bulletin boards
- sales agent

9.2 Plan advertising for media and establish sales promotions

9.3 Determine prices for products and services:

- expenses and break-even point
- time involved
- supply and demand
- hourly rate of earnings
- fair return

Selling Products on Consignment

U.S. Small Business Administration
Number 4.007

Summary

Sellers seeking new and expanded wholesale and retail markets for goods can use consignment selling to economic advantage in many cases.
This Aid **provides a discussion of the advantages/disadvantages of consignment selling and general comments about how to use consignment as an effective selling tool for the small business operation.**

What happens to a manufacturer who has developed a new consumer product that is thought to be a best-seller, but no retailer or wholesaler is willing to invest enough capital to stock a small number of the items in inventory?

What happens to a manufacturer who is told that the seasonal product he or she is trying to sell is such a capital risk that there is probably no chance that it will make the retail shelves during that Christmas season?

How can manufacturers in these cases and similar cases make the products and terms of sale sufficiently attractive to get the product on retail shelves for exposure to the buying market?

Perhaps through the use of consignment selling.

Selling goods on consignment is described as a situation whereby goods are shipped to a dealer who pays you, the consignor, only for the merchandise which sells. The dealer, referred to as the consignee, has the right to return to you the merchandise which does not sell and without obligation.

As you can see, this may not be an ideal arrangement. The dealer has no money invested and is not obligated to "push" your merchandise.

Purpose Of Consignment Selling

Even with obvious disadvantages, there may be times when you may decide that consignment selling can serve your purpose. It can be used as a marketing tool which creates no obligation on the part of the dealer in the event they do not sell. As a result, such practice can provide an attractive incentive for the dealer, at least to stock your merchadise. The dealer has no risk and you have your merchandise before the buying public.

Examples of goods which very often are sold on consignment include light bulbs, produce, eggs, poultry, magazines, newspapers, Christmas decorations, garden seeds, batteries for flashlights, and potted plants such as those found in supermarkets.

In the case of perishable merchandise (either in quality or in seasonal appeal) dealers are often more inclined to consider placing it in their stock if they have no great threat of financial loss on investment in the event it does not sell.

In the case of a newly designed and manufactured product for which there is no sales record, dealers might be more enthusiastic about promotion if their investment loss is minimized.

Advantages Of Consignment Selling

Now that you've read some general facts about consignment selling, look at the specific advantages to you as a manufacturer.

1. It allows a seller (manufacturer) to place merchandise in wholesale and retail outlets for additional exposure to the buying market.
2. It can provide an incentive for the wholesaler and retailer to stock goods in inventory because no capital of theirs is tied up in inventory.
3. It can encourage wholesalers and retailers to stock seasonal or otherwise newly introduced merchandise which they might not usually buy because of a lack of demand.
4. It provides the manufacturer with the opportunity to have the merchandise exposed to the buying market, instead of having it stored and isolated in a warehouse while waiting for an order from a buyer.

Disadvantages Of Consignment Selling

In deciding whether or not to use consignment selling, you need to look at the disadvantages.

1. While your merchandise is being exposed on the shelves of a wholesaler or retailer, you get no money until they sell.
2. As the manufacturer you must have enough cash on had to wait extended periods for payment of merchandise sold.
3. Since the goods are out of your physical control, you cannot control the damage and shopper abuse which inventory merchandise is generally subject to.
4. You cannot always affect shelving decision which wholesalers and retailer make concerning maximum exposure of the merchandise. Because consignees do not

have any capital invested in the inventory, they may be inclined to place their outright-owned inventory in the most advantageous display spots in order to realize a fast return on investment. They are aware that they do not lose any investment if the consigned goods do not sell. They do lose if the inventory they own does not sell.

5. Where personal selling is important, outright owned merchandise might be promoted over consigned goods because, again, return on investment matters where investment exists.

6. If the gross margin to the seller is greater than the percentage commission with the sale of consigned goods, then the seller might tend to favor selling the outright owned goods. For this reason, the consignor is introduced to the importance of providing an attractive incentive in the form of a commission for the consignee. In other words, the consignee needs a strong reason to sell the merchandise since the motive to recoup investment is not present.

A Few Words Of Caution

Consignment selling may or may not be attractive to you. It depends on your situation. You might use consignment selling for market testing. It might be a fairly inexpensive way to learn how or if a new product will sell.

Keep in mind, however, that you tie up your funds waiting for merchandise to be sold. Also, the dealer may be a poor credit risk. Moreover, there may be other hazards inherent in a situation where the dealer does not have funds tied up.

In brief, the various factors over which you have less control than in other marketing situations could mean that the risks may be greater than your resources can absorb.

To evaluate whether or not consignment selling can be advantageous to you, consider the following discussion of the consignment relationship, special considerations, and examples of operational aspects.

The Consignment Relationship

The relationship which exists between you, the consignor, and another seller, the consignee, is an agency relationship. That is the consignee never takes title to the merchandise but acts as the agent of the consignor to pass title to the buyer.

Since title does not pass to the consignee in the absence of an agreement, liability of loss for the merchandise remains with the consignor.

This means that you and the consignee can agree to specific statements for assuming a share of the loss in case of shoplifting or other damage to the merchandise. However in the absence of such an agreement, you, the consignor, are responsible for the loss involved even though the merchandise might have been shoplifted from the premises of the seller while the consignee exercised normal care in the dsiplay and handling of the merchandise.

Because of the details and legal implications involved in consignment selling you, as a consignor, should give careful attention and planning to selling products on consignment.

Give Special Consideration To...

Contractually speaking, you and your consignee can agree to a variety of mutually-advantageous measures. That is, you might agree in writing that the merchadise will be placed in the wholesale or retail business where it is exposed to an estimated 50 percent of foot traffic that enters the store.

Also, you should agree as to the exact commission to be awarded to the consignee upon sale of the merchadise. The length of time (days, weeks, etc.) which the consignee will agree to keep the merchandise will probably be specified. Also, the intervals at which the consignee will make payments for goods sold should be considered.

Agreement concerning delivery and pick-up of the merchandise might be included, as well as conditions of storage of any merchandise that is not on display, particularly perishable merchandise. Your contractual agreement might specify that you will be paid for "inventory sold," when

Inventory Delivered Less Inventory Collected
Equals Inventory Sold

Yet, the formula for payment noted above assumes that all merchandise will be either sold or claimed by the consignor and completely rules out the possibility of disappearance of the merchandise from the sales floor. Since shopper damage and shoplifting are sobering realities of doing business, it is wise to consider them and to plan for their occurrence beforehand.

The merchandise legally belongs to the consignor in a consignment sale and liability for any loss is still the consignor's problem. Some consignees may be willing to share the responsibility involved in loss due to shoplifting if the issue is handled tactfully.

In some cases, the consignee will assume responsibility for damaged goods. When this is the case, you, the manufacturer, will suffer no loss. However, such cases are rare. At best, you can expect a sharing of the loss with the consignee.

When you assume part or all of the loss, ask for and keep the damaged goods for your own records. A consignee could claim that some of your merchandise was damaged when in fact the consignee sold it and pocketed the money.

Also consider damage caused by sun rays that fade colors and make some merchadise unfit for sale.

Examples Of Consignment Selling

Consider the wholesaler of artificial floral merchandise who sell to numerous small and medium retail floral establishments. Such a wholesaler often stocks mostly staple merchandise with a limited assortment of infrequently sold items.

A manufacturer who has developed a novel item for that industry and has no sales history to use as a basis for showing the wholesaler that the item will sell, probably will have a difficult time getting the item into the wholesaler's inventory.

If a potential consignee such as the wholesaler in this example, is comfortable with current sales levels and gross margin, the manufacturer will find it difficult to convince the wholesaler to carry this item in inventory.

Yet, in a consignment sale, the manufacturer can always ask, "What do you have to lose?" The answer is, of course, "Nothing."

If the manufacturer makes it easy enough for the wholesaler to stock the item and the wholesaler is aware of a possible commission for exerting very little effort, the merchandise usually has a very good chance of being placed in stock. As a result, the merchandise has wide exposure in the market and the wholesaler feels no risk associated with trying the merchandise. If it sells well, chances are good that it will be placed again. Even if the wholesaler had bought the items outright the first time around, and they did not sell, they would not be reordered. Thus, the marketability of the merchandise is at stake in either situation and the positive aspect in consignment selling is that the wholesaler is assured that he or she has no investment to lose.

In another example, consider a manufacturer of a seasonal item such as Easter baskets, Christmas ornaments, Halloween items, or beach toys. Often wholesalers and retailers order these items far in advance and make a strong effort not to overorder because *the market is defined in terms of days or weeks.*

Manufacturers can promote their products in these industries by assuring the wholesaler and retailer that whatever is not sold will be taken back by the manufacturer.

In such cases as these, shopper density is usually heavy during a short period of time. That is, there are several peak shopping days during which crowds of shoppers are likely, by their number alone, to cause significant sales and damage to at least some of the merchandise on the shelves.

An agreement concerning shoplifting and damage becomes particularly important in such cases.

Consignor's Liability

A serious issue to consider in consignment selling is that of liability for merchandise. Since the consignor remains owner and title does not pass to the consignee, legally the liability rests with the consignor, in the absence of any other agreement.

This means that whenever merchandise is destroyed by water, fire, or smoke while in the inventory of the consignee, the loss is that of the consignor.

The importance of the issue calls for special attention at this point because there is a sales situation which has been viewed by some as similar to consignment selling and can become a legal problem for the consignor. "Sale or return" as its is called, is a situation in which the risk of loss passes to the consignee when the goods are in his or her possession.

"True Consignment"

From court decisions over the years, certain points have surfaced that are important in the determination of "true consignment." They are:

1. The consignor is authorized to demand return of the goods at any time.

2. The title rests with the consignor until the goods are sold, at which point, title moves directly to the buyer and never passes through the consignee.
3. The consignee is authorized to sell the goods only at a specified price or not less than the invoice amount.
4. The consignee is required to meet certain standards in keeping of the goods, such as their segregation from goods wholly owned or held under a claim of ownership or interest.
5. The consignee is required to forward proceeds of sale immediately to the consignor or to deposit them in a special account.

The title issue becomes critical because creditors of the consignee will have claim to the merchandise if the title has passed to the consignee in a "sale or return" situation. In a true consignment sale, the title always remains with the consignor.

If you plan to sell on consignment, your attorney can provide guidance on the legal aspects and your accountant can advise on the recordkeeping and accounting aspects of this type of selling.

Revised September 1977

Selling by Mail Order

U.S. Small Business Administration
Number 3

This Small Business Bibliography No. 3, *Selling by Mail Order*, is a major revision and provides a list of publications and trade associations for persons interested in selling by mail. It should be helpful in establishing and promoting a profitable mail order business. Space limits selection of listings; omission of a publication implies no slight to other authors. Prices and availability of listed publications are subject to change without notice.

This Bibliography was prepared with the help of the National Mail Order Association, Los Angeles, Calif., and was written by Paul Muchnick, president of Paul Muchnick Company in Los Angeles.

Mail Order

–two words that both inspire and excite the mind of the business entrepreneur. More so perhaps than any other business, mail order conjures up visions of enormous wealth, easy living, and the proverbial "pot of gold" at the end of the rainbow.

There is a magic—a mystic—a magnetic attraction that draws people to mail order. Like other types of businesses, mail order has its advantages and disadvantages—its share of successes and failures. It is not a quick, easy, effortless road to riches.

Yet it is also true that mail order, as a way of doing business, has been good to many people. There are countless success stories of people who have not only made a good living selling products and services by mail, but have amassed fortunes—starting on a kitchen table, a garage or spare room. It is likewise the fact that many people attempt, flounder about, and lose money in the effort to establish a successful mail order enterprise.

Despite the greater mobility of people throughout the Nation, the abundance of shopping centers, the convenience of telephone shopping, and boom and recession economies, mail order continues to grow. Mail order sales total approximately $60 billion annually and represents about 12 percent of all consumer purchases. That's over a billion dollars a week of products and services purchased by mail.

What Sells by Mail?

There is, of course, no single or simple answer to this basic question. The stories are common of the unusual sales of items such as the ant farm, pet rock, and others. These are exceptions! Like lightning, they do not strike twice too often. Generally speaking, products that sell well by mail are usually those not readily available in stores or other sources.

To discover such items requires studying many trade publications, attending product shows such as giftwares, housewares, stationery, jewelry, boutique, and other consumer merchandise, contacting manufacturers, and answering ads. Talk to friends, relatives and business associates and use any other means to find the elusive small order money-maker.

Make a thorough study of magazines and newspapers and review the ads appearing there over a period of time. Note ads that run consistently, month after month or several times a year. Answer ads that are particularly interesting. Carefully study the catalogs, sales letters, brochures and sales literature received. Study particularly all follow-up mailings received. You must learn from the promotions of the successful mail order firms that this will be a competitive market and know well what the competition is doing.

Ideally, the most profitable mail order product is one which customers will buy repeatedly, or a variety of products from which customers may make repeated purchases. Rarely, is a profitable mail order business established through the sale of a single product or any kind of one-shot offer.

Test, Test, Test to Maximize Profits

Once a product or product line has been selected, it's time to promote sales. If the item is low priced, it may be sold directly from the ad or direct mail. If it is a more costly item, it may be necessary to first advertise for inquiries, then follow-up the inquiries with a letter and circular to obtain the order.

Here again there is no hard and fast rule which applies to every product. What works for one may not for another. Only testing may reveal the most profitable way to sell any product. In general, the lowest cost way to sell a product by mail is through media advertising. Advertising rates for magazines, newspapers, and other media are shown in *Standard Rate and Data Service*, (see *Directories* in this SBB) together with mechanical requirements, closing dates, circulation and other data.

When preparing advertising, use the best possible photograph of a product. Describe it accurately, honestly, and in a manner that makes it desirable to the reader. Then price the product competitively and you are in business. Bear in mind that exaggerated claims of quality, performance, construction, and other features will be quickly detected and will do more to turn off prospective customers than anything else. In addition, Federal, State, and local government agencies, as well as the Better Business Bureaus and consumer groups constantly watch advertising and are quick to take action against unsubstantiated claims or infractions of any laws.

When and Where to Advertise

Use direct mail and media for advertising but always within a budget. Also, keep careful records of the returns from ads and mailings. This will indicate which ads pull and whether any season or time of year produces better results than others. Letters, circulars, catalogs or other direct mail act as tests to determine the best copy appeal, most effective art work, right price, and other features.

Classified Advertising can be an excellent and low cost means of testing new products. In many respects, it is the mail order operator's best friend. For relatively small sums several offers simultaneously can be tested to determine which work and which don't, before investing in large-scale advertising. Many people rely solely (and successfully) on classified advertising.

Advertising—Win or Lose

Whether it be magazine, newspaper, radio, TV, direct mail or other form of promotion, nothing determines the success of a mail order enterprise so much as its advertising. Writing advertising copy, preparing art, selecting media, determining price, and other factors require long and successful experience in mail order selling—and for this there is no substitute!

Generally, these are abilities possessed by advertising agencies specializing in this field. So, select an advertising agency carefully, and primarily on the basis of successful experience in producing profitable *mail order* advertising.

Selling by Direct Mail

Despite increasing costs of postage, printing, paper and mailing operations, direct mail continues to be an effective and profitable means of selling. Mailing lists covering virtually every conceivable type of market and customer base are available from a great variety of sources. However, finding such lists is not always easy.

Publicity Can Be Profitable

So-called "free" publicity is largely a myth; yet carefully prepared, properly placed publicity can prove invaluable in producing mail order sales. Many publications have special sections devoted to new products where a product may be featured.

To capitalize on this sales opportunity requires thorough knowledge of how to properly present a product to editors. In a sense, the editor must be "sold" on the value of a product to the publication's readers.

Simple as it sounds, successful writing and placing of product publicity is not a chore for the amateur. Usually this service is performed by an advertising agency or a specialist in this field. Here again remember that experience usually pays off.

Direct Mail Advertising

The importance of direct mail in mail order selling is obvious. Catalogs, sales letters, brochures, order forms, broadsides, other sales literature contribute substantially to the success of every mail order enterprise.

If possessed of the ability to clearly, effectively, and persuasively communicate, write your own copy. Many mail order people do, and often attribute their success to their own particular style of writing which "brings in the orders." That, of course, is the ultimate criterion.

If writing copy is not a skill of yours, recognize that fact and seek the services of competent professional help. Ultimately, direct mail advertising—used effectively—will determine the profitability of a business.

Whether selling one, several or a large selection of products, sales will largely be the result of direct mail. Use sales letters, brochures, and other sales literature to illustrate and describe a limited number of products; use catalogs for a large selection.

As in most businesses, quality usually costs more but pays the most. The successful operator looks first to make dollars rather than save pennies.

This does not imply reckless spending on advertising, direct mail, and other promotion. Far from it! Don't invest in full color printing when one or two colors will do the job. There is no need to use the costliest papers, elaborate art, or engage in other extravagances to sell profitably. Avoid going overboard in either direction.

Keep Good Records

A word of caution: to succeed in mail order pay close attention to details! But don't get bogged down in them. Keeping accurate records, results of ads, advertising costs, printing, postage, cost-per-order, and other figures are important to the success of the business. However, do it in the simplest, easiest, least time-consuming way possible.

Repeat Business—Key to Maximum Profits

Continuous profits come from continuous sales. As already suggested, rarely is a profitable mail order business established on a one-time sale. Below are some of the ways to stimulate repeat orders at minimal cost:

Never Forget the Customer. The list of customers built up is a most valuable asset. Use it to send offers of merchandise at frequent intervals.

Use Package Stuffers. A regular catalog or a special offer rides "free" in outgoing orders. Since postage and packing costs already are being paid to ship the merchandise, package enclosures can bring in new sales and profits.

Offer Quantity Discounts. Get larger orders by offering savings on quantity purchases. Every one loves a bargain. A discount or a special price, a premium for an order over a given amount, and similar incentives stimulate larger orders. Furthermore, gift certificates are often used profitably too, especially during Christmas and other holiday seasons.

Advertise on Envelopes. If you are enclosing advertising in the envelope, consider utilizing the envelope itself to feature one or more specially-selected offers. The additional printing cost could prove insignificant compared to the extra sales produced.

Use the Personal Touch. Occasionally send "personalized" letters or mailings to "best" customers. Make special offers such as presenting special prices, and introducing new products to them. Consumers generally respond favorably to recognition, attention, and interest in an increasingly impersonal world.

Sum and Substance

Mail order can be profitable or unprofitable, depending upon personal skills, ability, business judgment, capital resources, imagination, aggressiveness, and stick-to-it-iveness. One entrepreneur may enjoy tremendous success promoting a product, while another may fail miserably. Usually, "it isn't the product, but what one does with it" that makes the difference!

U.S. Government Publications

The following selected titles of publications are listed under the names of issuing agencies. Some are free; others are for sale. Request the free publications from issuing agency, giving the publication's title and series number (if shown).

GPO—Government Printing Office—identifies the for-sale publications. These may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. For current price write to Superintendent of Documents. Give the publication's title, its series number (if shown), and name of issuing agency. Check local libraries for further listings of Federal publications and reference copies of some of the titles. Many public libraries keep selected publications provided through the Federal Depository Library System.

U.S. Small Business Administration
Washington, DC 20416

SBA issues several series of management and technical publications designed for the owner-manager and prospective owners of small business. Listings of publications may be requested from **SBA**, P.O. Box 15434, Ft. Worth, TX 76119.

Ask for SBA **115A Free Management Assistance Publications** and **SBA–115B For-Sale Booklets.** The lists are free and may be used for ordering the free series from SBA or the for-sale booklets from the Superintendent of Documents (GPO).

Listed below are titles in the various series that may be of interest to persons engaged in selling by mail order.

Small Business Bibliography (4- to 24-page pamphlet). Free. Each title deals with a specific kind of business function, giving brief description of the subject operation along with appropriate bibliographic listings of selected references.

Handcrafts **(SBB 1)**
Home Business **(SBB 2)**

Management Aids (4- to 16-page pamphlet). Free. Each title gives guidance on a specific subject for owners of small retail, wholesale and service businesses.

Checklist for Going Into Business **(MA 2.016)**
Keeping Records in Small Business **(MA 1.017)**
Plan Your Advertising Budget **(MA 4.018)**

Library of Congress
Washington, DC 20540

A mail order operator, one who prepares materials to sell by mail, frequently needs to copyright printed materials. A list of copyright publications is available upon request from the Copyright Office, Library of Congress, Washington, DC 20450.

The Copyright Law of the United States of America. Request price from the Superintendent of Documents.

Federal Trade Commission
Washington, DC 20580

List of Publications. Free. Includes listings of publications such as trade practice rules for many industries.

U.S. Postal Service
Washington, DC 20260

The following booklets supply general information on post office services, rates, and various office sizes. Some of these are available in large post offices and local libraries.

International Mail. Request price from Superintendent of Documents. Contains detailed information about postage rates, services available, prohibitions, import restrictions, and other conditions governing mail to other countries. The countries are listed alphabetically, with the specific requirements applicable to mail addressed to each of them. Sold on a subscription basis only, which includes the basic book in looseleaf form, and changes issued as required for an indefinite period.

Directory of Post Offices. Request price from Superintendent of Documents. List of post offices, branches, and postal stations by States, counties, and alphabetically by name.

Postal Bulletin. Issued weekly with supplementary issues. Request price from Superintendent of Documents. Covers such topics as: changes in regulations, new developments in postal service, and handling of mail. Intended primarily for postal employees; also of value to larger direct mail advertisers and mail-order dealers.

Postal Service Manual. Subscription basis. Basic book and changes service for an indefinite period. Contains regulations and procedures for public use; explains the services available; stipulates rates and fees; and prescribes conditions under which postal services are available to the public. From Superintendent of Documents.

National ZIP Code Directory. Request price from Superintendent of Documents. List ZIP Code for every mailing address in the United States. Arranged alphabetically by State, within each State, complete listing is given of all post offices. Appendix after each State gives ZIP Code for each address in larger cities, and other pertinent ZIP Code data.

Department of the Treasury
Internal Revenue Service
Washington, DC 20220

Tax Guide for Small Business. Designed to assist businesspeople in preparation of Federal tax returns for the calendar year. Annually in December. Request price from Superintendent of Documents or local District Director of Internal Revenue.

Nongovernment Publications

Following is a list of books, directories, magazines, and trade associations which may be helpful in obtaining information about selling by mail order. Many of the books may be purchased from book stores or directly from the publishers, but most are available at local libraries. The publisher, address, and price are given for direct ordering although **availability and prices are subject to change.**

Books

For additional listings, consult the *Cumulative Book Index*, *Subject Guide to Books in Print*, and the *Publishers Trade List Annual* at local libraries.

ARCO Publishing Company, Inc.
219 Park Ave., South
New York, NY 10003

How to Win Success in the Mail Order Business. 1966. $5. Presents profitwise techniques of mail order, including fundamentals of capital, organization, plant, equipment, supplies, buying, merchandising, sales promotion, legal requirements and record-keeping.

How Mail Order Fortunes are Made. Stern, Alfred. 1974. $12.95. Complete "how to" book on basics of mail order, covering everything from locating saleable products to writing ads and promotional literature. Order from Selective Pubs., Inc., P.O. Box 1140, Clearwater, FL 33517.

Crain Books
740 Rush St.
Chicago, IL 60611

Successful Direct Marketing Methods. Stone, Bob. 1975. $24.95. Widely regarded as the modern "Bible" of direct response advertising, this book reveals how successful professionals use direct mail, space broadcast and other media to sell all kinds of products. Included are over 100 illustrations, self-quizzes and case studies.

Dartnell Corporation, The
4660 Ravenswood Ave.
Chicago, IL 60640

Direct Mail & Mail Order Handbook. Richard S. 3rd ed. $52.50. Comprehensive guide to every phase of mail advertising and selling. Methods used by top professionals described in detail, enabling you to adapt their ideas to your own needs to get results you seek.

McGraw-Hill Book Company
1221 Avenue of the Americas
New York, NY 10020

How to Start and Operate a Mail Order Business. Simon, J. 1976. $19.95. This up-dated text clarifies techniques of earning maximum profits and provides mail order operators with sound guidance for improving efficiency.

How to Write Advertising That Sells. Bedell, C. 2d ed. 1975. $26.50. Describes what ad copy should do and how it can be written to do it. Discusses selling strategies and methods for applying them in the writing of effective ads.

Planning and Creating Better Direct Mail. Yeck, J. and J. Maguire. 1976. $19.95. Packed with ideas and methods for producing art and copy that sells merchandize by mail.

Printing and Promotion Handbook. Melcher, D. and N. Larrick. 1976. $24.95. Encyclopedia of information vital to the preparation of printing, production and related services used in mail order/direct mail selling.

Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632

Tested Advertising Methods. Caples, John. $11.95. Revised edition of the copywriter's "Bible" removes advertising guesswork and reveals proven selling techniques. Includes 82 pages of illustrations of result-getting headlines, ads, and direct mail.

How I Made $1 Million in Mail Order. Cossman, E. Joseph. 1975. $9.95. Practical, step-by-step system for successful mail order promotion explained in detail by a man who started small and achieved giant-size mail order success.

Tab Books
P.O. Box 40
Blue Ridge Summit, PA 17214

My First 65 Years in Advertising. Sackheim, Maxwell. $9.95. Copy genius who created "Book of the Month Club" idea explains why his greatest ads were such huge successes and why they sold billions of dollars of merchandise.

Directories

Listed here are useful directories for locating sources of supply, services, and products. Some are available for reference at local libraries. Publishers' names and addresses are provided for direct ordering although *availability and prices are subject to change*

Mail Order USA
P.O. Box 19083
Washington, DC 20036

Mail Order USA. O'Callaghan, Dorothy. $7.00. Guide to 2000 top mail order catalogs in the United States and Canada. Every type of catalog and merchandise is listed.

B. Klein Publications, Inc.
P.O. Box 8503
Coral Springs, FL 33065

Mail Order Business Directory. Biennially. $45. Lists over 5000 names, addresses, and basic facts about U.S. firms doing business by mail. Buyer's names are shown and types of merchandise sold.

Guide to American Directories. 10th ed. $45. Lists over 5000 directories available as mailing lists and provides publishers' names, cost, contents of each directory.

Standard Rate & Data Service, Inc.
5201 Old Orchard Road,
Skokie, IL 60076

Direct Mail List Rates & Data. Semiannually. $92. Comprehensive listing of mailing lists, arranged by subject in consumer, business and farm categories.

Consumer Magazines & Farm Publications. Monthly. $126. Listing of advertising rates, publication, closing dates, other data of publications accepting advertising.

The fact that a publisher or firm is listed in this *Small Business Bibliography* does not indicate that the U.S. Small Business Administration endorses any such firm.

Magazines, Newsletters

Following are some of the periodicals offering marketing and management information related to various aspects of selling by mail.

Advertising Age. Weekly. $40 a year; $1.00 a copy. Crain Communications, Inc., 740 Rush St., Chicago, IL 60611.

Direct Marketing. Monthly. $30 a year; $3.00 a copy. Hoke Communications, Inc., 224 7th Ave., Garden City, NY 11530.

Direct Marketing Letter. Monthly. $45 a year. Janus Marketing Communications, Inc., 1370 Longwood Rd., Lake Forest, IL 60045.

Mail Order Digest. Monthly. $42 a year. National Mail Order Association, 5818 Venice Blvd., Los Angeles, CA 90019.

World Gift Review. Monthly. $14 a year. World Gift Review, 616 9th St., Union City, NJ 07087.

Washington Newsletter. Monthly. $42 a year. National Mail Order Association, 5818 Venice Blvd., Los Angeles, CA 90019.

Trade Associations

Trade associations are generally excellent sources of information and assistance in their specific areas. Some of the associations dealing with various phases of mail sales are listed below. Most will send descriptive literature of their services, sample publications, and membership requirements.

Direct Mail Marketing Association
6 East 43d St., New York, NY 10017

Associated Third Class Mail Users
1725 K St., N.W., Washington, DC 20006

National Mail Order Association
5818 Venice Blvd., Los Angeles, CA 90019

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Determine Prices

Determining prices for the products or services sold by your business is one of the most challenging tasks facing the entrepreneur, especially the novice. How much is paid by the customer for a product or service is the selling price. Some essential questions to ask to set prices are:

What are people willing to pay?

What is the break even point; when are expenses covered?

How much profit do you want to make?

What is your competition charging?

Setting prices for a service-oriented business is a little different than setting prices for products sold by a business. Both have some common cost considerations.

General Price Setting Components

Common essential considerations when setting prices are:

operating expenses
break even point
profit

All the costs of running a business must be included in the price charged. Another name of these costs is operating expenses. These costs include:

salaries
fees--to lawyers, accountants
rent (includes space in your house)
utilities, heat
repairs
depreciation on any equipment
advertising/promotional expenses
general supplies
insurance

Service-Oriented Business

A person operating a service-oriented business needs to figure out on paper the operating expenses incurred simply to keep the business going. Keep careful records each month of all the money spent for the business and the income received.

The price should include:

operating expenses
time investment/labor costs
profit

Remember to include the costs of heat, electricity, and rent even when working from your house. Bookkeeping and answering services, as well as office supplies, gasoline, postage, and telephone expenses need to be counted as business expenses and figured into the price charged. Service businesses either charge a flat fee or by the hour. In either case you must know what your hourly expenses are.

If you work full-time, 8 hours daily, then you are working 168 hours a month. The standard number of working days in a month is 21.

8 hours x 21 standard working days per month = 168 hours per month

Adjust these figures to suit your own personal situation if you work more time or part time.

To compute your hourly expenses take your total monthly expenses and divide by 168 to arrive at your hourly expense figure.

For example:

Total monthly expenses divided by 168 = hourly expense
$596 divided by 168 = $3.55

Labor is a major portion of the service-oriented business's expense. Figure out what your time per hour is worth for each task and include it in the price.

You may decide to charge the hourly minimum wage, which is currently $3.35 per hour. If a task is complicated and requires a special expertise not readily available you may want to charge a high amount for your labor. Keep in mind this will elevate the price and some customers will either be unwilling or unable to buy your service. Some entrepreneurs are willing to charge less than minimum wage for their labor until they have established their business reputation.

Profit should also be included in the price charged. A business cannot continue to operate if it does not make a profit. You will want to find out the profit percentage made by other similar services and include a comparable amount in your price.

To arrive at the figure representing the price per hour to be charged:

1) Decide on the amount to charge per hour for your labor.
2) Add the amount of your hourly expense to the hourly labor charge.
3) Decide what you think is a fair and competitive amount of profit; add this to your other charges.
4) Arrive at the price to be charged per hour for the service you are selling.

Example:

$3.55	+	$3.55	+	$1.40	->	$8.50 per hour
labor expense per hour		hourly expense		profit per hour		price charged

Product-Oriented Business

Businesses selling products also have to keep their competition in mind and determine the "going rate" for similar products sold in their area. The profit percentage and business operating expenses are standard components figured into the price charged for products.

The selling price for products being sold should include:

cost of goods sold
operating expenses
profit

In retail businesses the difference between wholesale cost of the merchandise and the retail price is called mark-up. Mark-up must cover the costs of operating the business and allow the business to make some profit.

The most common strategy used to set prices is called gross profit pricing. This is the amount added to the wholesale cost, and in this case can be thought of as a mark-up. Gross profits must cover operating expenses. Net profit will be what is left over after paying out operating expenses. Net profit is the reward the owner expects for all the hard work and financial investment made in the business. Part of the profit money will be used to pay income taxes and some will be reinvested in the business.

Hard goods are usually marked up 100%. Living products such as plants may be marked up 100% to 300%.

To calculate the gross profit percentage or mark-up use this formula:

$$\frac{\text{Selling Price - Wholesale Cost}}{\text{Selling Price}} = \text{Gross Profit Percentage}$$

$$\frac{\$30 - \$10}{\$30} = 66\%$$

Other Relevant Elements in Price Setting

When setting prices the entrepreneur will be aided by guidelines and formulas; however, other factors also need consideration. The price charged by a competitor is relevant to the price you can charge. You want customers to buy goods or services through your business, not through your competitors' businesses.

The break-even point is another important figure to calculate. What is the minimum amount you can charge simply to regain the costs you have had to pay out to run the business? You will be able to determine this from your records of business expenses and product costs.

When products are not selling, the entrepreneur will need to mark down prices to help speed sales. Sometimes, an item will be marked below cost simply to move it out of inventory. Be sure customers know the original price so they can see the bargain they are getting. Mark downs make customers happy.

Stock Turnover

Stock turnover is the number of times inventory is sold and must be replaced in a year. It is an indicator of your business's health.

To figure your turnover rate, take the cost of the goods sold in your business in one year, and divide by the average cost of inventory carried to learn your turnover rate.

The average cost of inventory figure can be calculated by first adding up the wholesale costs of all inventory on hand January 1. Next count and add the wholesale costs of the end-of-month inventories for the next 12 months. Add these two figures together and divide by 13.

For Example:

Wholesale Cost of All Inventory on hand:
--------------------------------------->

January 1		$ 900.00

Wholesale Cost of Inventory at End of Each Month for Next 12 Months:
--------------------------------------->

January 31	$ 1,000	
February 28	900	
March 31	800	
April 30	950	
May 31	1,050	add
June 30	1,100	
July 31	1,150	
August 31	1,300	
September 30	1,050	
October 31	1,000	
November 30	900	
December 31	800	
Total		$12,000.00
Grand Total		$12,900.00

Divide the total wholesale inventory costs by 13 to get the average cost of inventory carried:

$12,900 divided by 13 = $992

Now you can figure what the turnover rate will be.

Take the total costs of the goods sold by your business in one year and divide by the average cost of inventory carried.

$$\frac{\text{Cost of Goods Sold in One Year}}{\text{Average Cost of Inventory Carried}} = \text{Turnover rate}$$

$$\frac{\$10{,}000}{\$992} = 11$$

A low turnover rate may indicate not only slow sales but a poor choice of merchandise. Too high a turnover rate may indicate a need to buy in larger quantities. A business selling perishable items will want a turnover rate between 9 and 12 times a year. In this way spoilage loss will be minimized, and more cash is available to buy merchandise to improve inventory.

Summary

Learning how to set prices takes some business experience. The information in this section is presented as a helpful guide; however, some degree of flexibility is needed. You need to set prices high enough to pay operating expenses and give some profit, but low enough that people will buy.

You will need to make some adjustments to your business if your operating expenses are too high.

from Home Entrepreneurship: Instructional Materials in the Operation of a Small Business from the Home, Susan F. Weis and Kay S. O'Brien, Pennsylvania Department of Education, Bureau of Vocational Education, Harrisburg, PA, June, 1983.

What is the Best Selling Price?

U.S. Small Business Administration
Number 1.002

Summary

In setting prices, the goal should be to maximize profit. Although some owner-managers feel that an increased sales volume is needed for increased profits, volume alone does not mean more profit. The ingredients of profit are costs, selling price, and the unit sales volume. They must be in the proper proportions if the desired profit is to be obtained.

No one pricing formula will produce the greatest profit under all conditions. To price for maximum profit, the owner-manager must understand the different types of costs and how they behave. You need up-to-date knowledge of market conditions because the "right" selling price for a product under one set of market conditions may be the wrong price at another time.

The "best" price for a product is not necessarily the price that will sell the most units. Nor is it always the price that will bring in the greatest number of sales dollars. Rather the "best" price is one that will *maximize the profits* of the company.

The "best" selling price should be cost oriented and market oriented. It should be high enough to cover your costs and help you make a profit. It should also be low enough to attract customers and build sales volume.

A Four Layer Cake

In determining the best selling price, think of price as being like a four layer cake. The four elements in your price are: (1) direct costs, (2) manufacturing overhead, (3) nonmanufacturing overhead, and (4) profit.

Direct costs are fairly easy to keep in mind. They are the cost of the material and the direct labor required to make a new product. You have these costs for the new product only when you make it.

On the other hand, even if you don't make the new product, you have manufacturing overhead such as janitor service, depreciation of machinery, and building repairs, which must be charged to old products. Similarly, nonmanufacturing overhead such as selling and administrative expenses (including your salary) must be charged to your old products.

Direct Costing

The direct costing approach to pricing enables you to start with known figures when you determine a price for a new product. For example, suppose that you are considering a price for a new product whose direct costs—materials and direct labor—are $3. Suppose further that you set the price at $5. The difference ($5 minus $3 = $2) is "contribution." For each unit sold, $2 will be available to help absorb your manufacturing overhead and your non-manufacturing overhead and to contribute toward profit.

Price-Volume Relationship

Any price above $3 will make some contribution toward you overhead costs which *are already there* whether or not you bring the new product to market. The amount of contribution will depend on the *selling price* which you select and on the *number of units* that you sell at that price. Look for a few moments at some figures which illustrate this price-volume-contribution relationship:

Selling Price	**$5**	**$4**	**$4**
Projected sales in units	**10,000**	**30,000**	**15,000**
Projected dollar sales	**$50,000**	**$120,000**	**$60,000**
Direct costs ($3 per unit)	**$30,000**	**$ 90,000**	**$45,000**
Contribution	**$20,000**	**$ 30,000**	**$15,000**

In this example, the $4 selling price, assuming that you can sell 30,000 units, would be the "best price" for your product. However, if you could sell only 15,000 units at $4, the best price would be $5. The $5 selling price would bring in a $20,000 contribution against the $15,000 contribution from 15,000 units at $4.

With these facts in mind, you can use a market-oriented approach to set your selling price. Your aim is to determine the combination of selling price and unit volume which will provide the greatest contribution toward your manufacturing overhead, nonmanufacturing overhead, and *profit*.

Complications

If you ran a nonmanufacturing company and could get as much of a product as you could sell, using the direct costing technique to determine your selling price would be fairly easy. Your success would depend on how well you could project unit sales volume at varying selling prices.

However, in a manufacturing company, various factors complicate the setting of a price. Usually, the quantity of a product that you can manufacture in a given time is limited. Also whether you ship directly to customers or manufacture for inventory has a bearing on your production and financial operation. Sometimes your production may be limited by labor. Sometimes by equipment. Sometimes by the availability of raw materials. And sometimes by practices of your competition. You have to recognize such factors in order to maximize your profits.

The direct costing concept enables you to key your pricing formula to that particular resource—labor, equipment, or material—which is in the shortest supply. The Gail Manufacturing Company* provides an example.

Establish Contribution Percentage

In order to use the direct costing approach, Mr. Gail had to establish a contribution percentage. He set it at 40 percent. From past records, he determined that, over a 12-month period, a 40-percent contribution for each price would take care of manufacturing overhead, nonmanufacturing overhead, and profit. In arriving at this figure, Mr. Gail considered sales volume as well as overhead costs.

Determining the contribution percentage is a *vital* step in using the direct costing approach to pricing. You should review your contribution percentage periodically to be sure that it covers *all* your overhead (including interest on money you may have borrowed for new machines or for building an inventory of finished products) and to be sure it provides for profit.

Mr. Gail's 40-percent contribution meant that direct costs—material and indirect labor—would be 60 percent of the selling price (100—40 = 60). Here is an example of how Mr. Gail computed his minimum selling price:

Material	**27¢**
Direct labor	**+10¢**
	37¢

The 37 cents was 60 percent of the selling price which worked out to 62 cents (37 cents divided by 60 percent). The contribution was 25 cents (40 percent of selling price):

Selling price	**62¢**
Direct costs	**—37¢**
	25¢

In this approach, raw material is given the same importance as direct labor in determining the selling price.

Value of Material

The value of the material used in manufacturing the product has a bearing on the contribution dollars that will accrue from each unit sold. Suppose, in the example above, that the material costs are only 15 cents instead of 27 cents while the direct labor costs remain the same—10 cents. Total direct costs would be 25 cents.

In order to get a maximum contribution of 40 percent—as Mr. Gail did—the direct costs must not exceed 60 percent of the selling price. To arrive at the selling price, divide the total direct cost by 60 percent (25 cents divided by .60). The selling price is 42 cents. With this new selling price, the contribution is 17 cents (42 cents minus 25 cents for direct costs).

The point to remember is that when the material costs are less, the contribution will be less. This is true even though the *same amount of direct labor and* the same *amount of machine use* is required to convert the raw material into the finished product.

Contribution-Per-Labor-Hour

What happens if Mr. Gail is unable to operate the equiment fully at all time? In order to *maximize* profits, he must realize the same dollar contribution per direct labor dollar, *regardless* of the cost of materials. To do this, Mr. Gail could use the "Contribution per Labor Hour" Formula for setting his selling prices.

In this formula, you determine a mark-on percentage to use on your direct labor costs. This mark-on will provide the required contribution as a percentage of selling price. For example, if direct labor is 10 cents and contribution is 25 cents, then contribution as a percentage of direct labor will be:

$$\frac{25}{10} = 250\%$$

The mark-on factor to use on direct labor costs is 250 percent of direct labor costs.

Now suppose that material is 15 cents and direct labor cost is 10 cents. The selling price would be 50 cents, figured as follows:

Material costs	**15¢**
Direct labor	**+10¢**
	25¢
Contribution	**+25¢**
Selling Price	**=50¢**

The "Contribution per Labor Hour" approach assures Mr. Gail a 25-cent contribution for each 10 cents of

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*All names in *Aids* are fictitious.

labor (250 percent) used to make a product regardless of the value of the raw material used.

Contribution-Per-Pound

If, and when, *raw materials* are in short supply and are the limiting factor, then the base to use is the dollar contribution-per-pound of material. This formula is similar to the one for contribution per labor hour. The difference is that you establish the contribution as a percentage of material cost rather than as a percentage of direct labor cost.

Contribution-Per-Machine-Hour

Determining the contribution-per-machine-hour can be a more involved task than figuring the contribution-per-pound. If different products are made on the same machine, each may use a *different* amount of machine time. This fact means that the total output of a certain machine in a given time period may vary. As a consequence, the dollar contribution-per-machine-hour that a company realizes may vary from product to product. For example, products A, B, and C are made on the same machine and their contribution-per-machine-hour is:

$28.80 for product A
$26.00 for product B
$20.00 for product C.

When machine capacity is the *limiting factor*, you can maximize profit by using dollar contribution-per-machine-hour when setting prices. When selling to customers, you should give priority to products that give the greatest dollar contribution-per-machine-hour. In the above example, your salesrep would push product A over products B and C.

To use this pricing approach means that you have to establish a base dollar contribution-per-machine-hour for each machine group. You do it by determining the total number of machine hours available in a given time period. You then relate these machine hours to the manufacturing and nonmanufacturing overhead to be absorbed in that period. For example:

Total machine hours available in 12 months = 5,000
Total manufacturing and nonmanufacturing overhead = $100,000
Contribution required per machine hour to cover manufacturing and nonmanufacturing overhead = $20*

***$100,000 divided by 5,000 hours**

In this example, during periods when the company can sell output of all of its available machine hours, it must realize a return of $20 per machine hour in order to cover its manufacturing and nonmanufacturing overhead. When the full 5,000 hours are used, the $20 per-hour return will bring the company to its breakeven point. When all the company's available machine hours cannot be sold, its return per-machine-hour must be more than $20.

Notice that in the above example, only the breakeven point is considered. There is no provision for profit. How do you build profit into this pricing formula?

Return-on-investments is a good approach. If the Gail Manufacturing Company, for example, has $300,000 invested and wants a 10-percent return, its profit before taxes would have to be $30,000. Mr. Gail can relate this profit goal to the machine-hour approach by dividing the $30,000 by 5,000 (the available machine hours). This means that he needs $6 per machine hour as a mark-up for profit.

Selling Price For Product C

Now suppose that Mr. Gail wants to use the contribution-per-machine-hour and profit-per-machine-hour approach to set a price for product C. For product C, the direct labor cost per unit is $1.80. Machine output (or units per hour) is 1.25, required contribution per machine hour is $20, and desired profit per machine hour is $6. The formula to set the unit selling price is:

Material cost	**$21.37**	
Direct labor	**1.80**	
Contribution per Unit	**16.00***	
Price before profit	**$39.17**	
Desired profit	**4.80**	**($6 X .80*)**
Desired selling price	**$43.97**	

*** Calculated as follows: With a machine output of 1.25 units per hour, .80 of a machine hour is needed to produce 1 unit; the required contribution per-machine-hour is $20; therefore, $20 X .80 = $16.**

If Mr. Gail is to get a 10 percent return on his investments before taxes, the selling price must be $43.97.

But suppose competitive factors mean that Mr. Gail cannot sell product C at $43.97. In such case, he might:

(1) Not make product C if he can use the machine time to manufacture another product which will give his company its profit of 10 percent—provided, of course, that he has orders for the second product.

(2) Reduce the selling price, if refusing orders for product C means that the machines will be idle. Any price

greater that $39.17 will generate some profit which is better than no profit.

But suppose that $39.17 is also too high. Should Mr. Gail turn down all orders for product C at less than $39.17? Not necessarily. If he has no orders to run on the machines, he should accept orders for product C at less than $39.17 because $16 of that price area contribution to manufacturing and nonmanufacturing overhead. He has to pay these costs even when the machines are idle.

Keep in mind that the direct costing method of setting a price gives you flexibility. For example, Mr. Gail has to get $43.97 for product C in order to make his desired profit. But his price for that product can range from $23.17 to $43.97 (or higher, depending on market conditions).

Any price above $39.17 brings in some contribution toward profit. Mr. Gail can break even at $39.17. Any price between $39.17 and $23.17 brings some contribution toward his overhead. And in a pinch, he can sell as low as $23.17 and recover his direct cost—material and direct labor.

However, Mr. Gail must use this flexibility with care. It takes only a few transactions at $23.17 (recovering only direct costs) to keep him from maximizing profits over a 12-month period.

Market conditions will affect your pricing decision; but the cost analysis formulas for setting selling prices help you to maximize your profit.

Profit Costing and Pricing for Services

U.S. Small Business Administration
Number 1.020

Introduction

This Aid discusses costing and pricing of services to assure that each job earns a reasonable profit. The figures used in the tables and examples do not reflect what your service costs, prices, and profits actually would or should be. The figures are used to demonstrate costing and pricing and are rounded off for further simplicity. Because of the importance and sometimes complexity of costing and pricing, it is good business practice to consult your trade association and particularly your accountant to learn what are the best current practices, cost ratios, and profit margins in your service business.

Costing Problems

Many small businesses are not making a profit today because they do not know the basic concepts of costing and pricing. The situation is most serious in the service business because each service performed has a different cost. Frequently, the service business must bid for jobs by making a price quotation in competition with similar businesses. Can you calculate your costs for your service and quote a price that is competitive and returns a profit?

Without realizing what they are doing, some business owners set their selling price below their total cost. This may result in more business for the company, but a loss will be incurred on each sale. Occasionally, a small business owner who lacks a knowledge of costing will try to compensate by setting prices very high. The end result is that the business is not price competitive and does not attract sufficient customers to survive. Frequently, a business earns a profit on some particular service and loses money on other services without knowing which services are earning a profit and which services are incurring a loss. The year-end income statement combines the profits and losses from the various services performed over the year. Therefore, it is impossible to determine the profitability of specific service jobs from a year-end income statement.

Use a simplified approach to cost accounting that reflects the needs of the small business and reports the cost with a reasonable degree of accuracy. The total cost of producing any service is composed of three parts: 1) the material cost, 2) the labor cost, and 3) the overhead cost. Direct materials and direct labor + overhead = total cost of service.

Cost Determination

Direct Material Cost The direct material cost is made up of the cost to you for parts and supplies that are used on specific jobs. Once the list of parts and supplies to be used is developed, a check with the supplier will give an up-to-date material cost. The shipping and other handling (storage, etc.) costs for the parts should be included in the material cost.

Direct Labor Cost The direct labor costs include those labor costs identified with a specific service job. The labor cost involved in providing a service is determined by multiplying the number of direct labor hours required by the cost per direct labor hour. It is very important to determine accurately the amount of direct labor hours involved to complete the service; therefore, you must use a time clock, worksheet, or a daily time card for each employee to determine the exact amount of labor time spent on each service job.

The hourly cost of direct labor can be figured (priced) two ways. One, it can be the hourly wage only, with fringe benefits, Social Security, Workers' Compensation, etc., (all labor-related costs) allocated to overhead. Or two, the hourly direct labor cost can include the hourly wages **plus** the employer's contribution to Social Security, unemployment compensation, disability, holidays and vacations, hospitalization and other fringe benefits (payroll costs).

By this second method, the added payroll costs for vacations, holidays and benefits are expressed as percentages of direct hourly wages. For instance, if two weeks of vacation and ten holidays are given annually, this amounts to four weeks per year or 7.7% (i.e., four weeks off divided by fifty-two weeks $\frac{4}{52} = 7.7\%$) of total labor cost was for time off. Thus, to determine the total direct labor cost per hour by this method, you must add the prorated cost of the payroll taxes, workers' compensation, holidays and vacation pay, hospitalization, etc., to the hourly wage paid. As a rule of thumb, the sum of the various payroll-benefit costs have generally been in the range of 20% to 30% of the hourly wages paid. It is more complicated to figure but more precise to use the higher labor cost (including labor related payroll costs in addition to hourly wages in direct labor costs). The following table shows a sample calculation for figuring the total direct labor cost using this more exact method.

ABC Repair Company

Table 1 Direct Labor Cost Calculation

(1) Hourly Wage	(2) Payroll Taxes @ 12%	(3) Workers Compensation @ 3%	(4) Total Direct Labor Cost Per Year*	(5) Vacation and Holiday Cost per Working Hour**	(6) Actual Direct Labor Cost per Working Hour***
$2.68	$.32	$.08	$6406.40	$.19	$3.27
3.26	.39	.10	7800.00	.23	3.98
3.40	.41	.10	8132.80	.24	4.15
3.62	.43	.11	8652.80	.26	4.42
3.85	.46	.12	9214.40	.28	4.71
4.10	.49	.12	9796.80	.29	5.00
		Total	$50,003.20		

*40 hrs/wk X 52 wks/yr = 2080 hrs/yr

**6.25% of Columns 1 + 2 + 3.

***Columns 1 + 2 + 3 + 5.

Overhead Cost Overhead includes all job related costs other than direct materials and direct labor. Your overhead cost depends on which of the two ways you figured direct labor costs, with or without the labor-related payroll-benefits costs. If you did not include these expenses in direct labor, then you must include them in overhead. In our examples, however, these labor-related costs are included in direct labor and not in overhead. Either way the effect on the total job cost is the same, but your overhead cost varies accordingly.

Because they may not know how to allocate (or assign) overhead costs to the services performed, many small business owner-managers miscalculate or avoid considering overhead costs.

Overhead is the indirect cost of the service and is made up of indirect materials, indirect labor, and other indirect costs related to particular services. Indirect materials are too minor to include as direct material costs. Incidental supplies and machine lubricants are examples. Indirect labor is the wages, salaries, and other payroll-benefit costs incurred by workers who do NOT perform the service but who support the main service function, such as, clerical, supply, and janitorial employees. Other costs, like taxes, depreciation, insurance, and transportation are also part of the overhead cost because the service cost includes a portion of all indirect costs (overhead). Table 2 projects total overhead for all services for one year. To figure the portion of overhead related to particular services or jobs, you allocate the various overhead costs by calculating the **overhead rate.**

The way you calculate the overhead rate should relate the overhead costs to the primary cause for the overhead cost being expended, reflecting a reasonable amount of total overhead to each service. The overhead rate can be expressed as a decimal, as a percentage, or as an hourly rate. The use of the overhead rate helps to assure that all the overhead costs expended throughout the year will be recovered as the business's services are sold throughout the year.

In a situation where employee wages vary a lot, as when higher paid employees work with more expensive equipment, the overhead cost is allocated on the basis of direct labor cost. This occurs because a large proportion of the overhead cost will consist of equipment depreciation (other indirect cost), interest on the capital invested in equipment, and electrical costs. The overhead rate is determined as follows:

$$(1)\ \text{Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Cost}}$$

This is the most common method for allocating overhead cost to the specific service performed. The above rate is suitable for machine shops and auto repair shops.

In some cases there is relatively little difference in the hourly wages paid to different employees. In other cases, no relationship exists between the level of the worker's skill and the amount of equipment used by the worker. Under such circumstances, total overhead cost may be allocated on the basis of direct labor hours as follows:

$$(2)\ \text{Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Hours}}$$

The above rate is suitable for businesses such as secretarial services or janitorial services. The overhead costs result mainly from the workspace, supervision, and electricity that the workers need in order to provide the service. Using formula (2), it is possible to determine the overhead cost per hour per employee.

Calculating the Overhead Cost In determining the total overhead cost, a small business should not depend solely on last year's income statement. Due to inflation and business growth, last year's overhead costs do not accurately reflect today's overhead cost. The best approach is to project the overhead costs for the near future, that is, the anticipated overhead expenses for the next six months to one year. The projected overhead cost will reflect additional administrative salaries, the depreciation of new equipment that the business plans to purchase, rent increases, energy cost increases, etc. Table 2 shows projected overhead expenses for a small business, ABC Repair Company.

The payroll taxes included in the **projected overhead expenses** for the service business are only those paid on executive and office salaries. The direct labor payroll taxes, holiday pay, vacation pay, etc., are included in **the direct labor cost** shown in Table 1.

ABC Repair Company

Table 2 Projected Overhead Expenses

for the Upcoming Year

Indirect Materials		
Office Expenses	$ 1,800	
Postage	450	
Repairs	2,900	
Shop Supplies	2,700	
Utilities	2,400	
Telephone	4,400	
		$ 14,650
Indirect Labor		
Executive Salaries	$30,000	
Office Salaries	7,000	
Payroll Taxes	12,000	
Travel & Entertainment	700	
		49,700
Other Indirect Costs		
Accounting	$ 2,400	
Advertising	4,800	
Auto-Truck Expense (Transportation)	5,400	
Depreciation	9,650	
Insurance	1,240	
Interest	2,560	
Licenses	650	
Miscellaneous Expense	500	
Rent	8,450	
		35,650
Total Overhead		$100,000

To insure that all overhead costs are included, it is best to project the overhead costs for a full fiscal year. This aids in the treatment of expenses that occur only once each year, such as business licenses.

Cost Calculation Example Perhaps the most common type of service business is the repair business. The cost calculation procedure illustrated here for the repair business can be used for other types of service businesses. The only precaution that needs to be taken is that the appropriate overhead rate formula which reflects the business's operation, as discussed above, be used in the calculation.

It has been estimated, based upon previous experience, that a specific repair job will require $20 of parts and 2 hours of labor by an employee whose labor cost is $5.00 per hour (These estimates will be used throughout this Aid). As discussed earlier, the total cost of producing any service is composed of: 1) the material cost, 2) the labor cost, and 3) the overhead cost.

To determine the material cost (the cost of the parts), check the cost of the part in your inventory or get a price quote from your parts supplier. A parts wholesaler is the source of the $20 material cost in this example.

To determine the total direct labor cost, the number of hours of direct labor used is multiplied by the actual direct labor cost per hour. An employee whose **actual direct labor** cost is $5.00 per hour, including payroll taxes and fringe benefits (see Table 1), requires two hours to complete the repair job.

Labor Cost = Direct Labor Cost per Hour X Hours Required
Labor Cost = $5.00 per Hour X 2 Hours
Labor Cost = $10.00

The projected overhead expenses were projected to be $100,000 per year, as shown in Table 2. The nature of the repair business is that overhead costs are most directly related to direct labor costs than to direct material costs. The total projected direct labor cost including payroll taxes and fringe benefits was determined to be $50,003.20 (see Table 1). The formula selected to determine the overhead rate based upon the direct labor cost is:

$$(1)\ \text{Overhead Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labor Cost}}$$

$$= \frac{\$100,000}{\$50,003.20}$$

$$= 2.00$$

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In most small businesses, the overhead rate is between one and two (i.e., between 100% and 200% of the direct labor cost). This is based upon the author's five years of small business management consulting experience. Businesses that are very labor intensive, such as a janitorial service, will have an overhead rate much less than 100%.

To determine the overhead cost allocated to a specific job, the labor cost is multiplied by the overhead rate as shown below.

(1) Overhead Cost = Direct Labor Cost X Overhead Rate
= $10.00 X 2.00
= $20.00

To determine the total cost of the repair job, the material cost, the direct labor cost, and the overhead cost are added together:

Material Cost	$20.00
Direct Labor Cost	10.00
Overhead Cost	20.00
Total	$50.00

Pricing

Calculate the profit and add it to the total cost to get the price to charge for the service, in this case a repair job. Prices charged by competitors (similar service businesses), economic conditions of supply and demand, and legal, political, and consumer pressures all influence the profit you can expect for your service and hence the price you can charge for your jobs. Inflation, the amount of business you have (i.e., number of jobs), and your productivity (the efficiency and quality of your business and service) also all affect your profit and the way you figure your prices. You can choose from several pricing methods. Common business practice is to express profit as a percentage of the base used for pricing calculations no matter which pricing method you use.

Pricing Alternatives In considering the total cost of the repair job discussed above, the material cost can normally be predicted with a high degree of accuracy. Labor and overhead costs cannot be predicted with such a high degree of accuracy. An employee may not feel well on a given day. Or there may be an equipment breakdown. Either will result in higher than expected labor costs. A provision to adjust for fluctuating labor and overhead costs can be established through your approach to profit. The profit can be applied to the three costs independently, allowing for variations in labor and overhead costs among jobs. For example, a 10% profit on material, a 30% profit on direct labor, and a 30% profit on overhead can be used to determine the price of the service.

Material Cost + Profit of Material				
$20	+	$20 X 10%	= $22.00	$ 2
Direct Labor Cost + Profit on Direct Labor				
$10	+	$10 X 30%	= $13.00	$ 3
Overhead Cost + Profit on Overhead				
$20	+	$20 X 30%	= $26.00	$ 6
$50 Cost			$61.00 Price	$11 Profit

The concept of applying a different rate of profit on the three underlying costs (material, labor, and overhead) is one method of dealing with the large difference in predictability of costs that exists between labor and materials in most service businesses. To reflect the fluctuations in utilization and cost of labor and overhead from job to job, your profit on labor and overhead should normally be higher than profits on materials.

Direct Cost Pricing With this method you set your selling price based on direct cost, that is, on direct materials (DM) and direct labor (DL). DM of $20 plus DL of $10 equals Direct Costs of $30. Overhead (OH) costs are $20; so to earn the $11 profit you need, your selling price must be at least $31 above your direct costs. To find the percentage of profit on direct cost to charge, divide direct costs into overhead plus needed profit:

$31 ($11 + $20) ÷ $30 = 103 1/3%
(proof $30 X 103 1/3% = $30 X 1.033 = $11)

Profit Margin Pricing This profit rate is expressed as a percentage of your full costs. Full cost is divided into the needed profit to get the percentage of profit margin:

$11 ÷ $50 = 22%
Proof $50 X 22% = $11

Profit can also be figured as percentages of assets used on the job. This method is called **return-on-asset pricing.** Thus, full cost per job **plus** the needed profit (rate of profit **times** the amount of assets used per job) **equals** the job price: $50 + ($80 X 14%) = $50 + $11 = $61.

First Printing 1981

One of the most widely used pricing methods for service oriented businesses is **time and material pricing.** Time is expressed as the labor cost per hour, calculated as 1) direct labor (DL) and payroll-benefits (see Direct Labor Cost explanation), **including** 2) overhead (OH) costs not related to materials and 3) needed profit. Material cost is the direct material (DM) cost and overhead (OH) plus 30% for needed profit. (Note overhead has been allocated to labor and materials.)

Time: DL $5 per hr. X 2 hrs. = $10
OH $7 per hr. X 2 hrs. = $14
24
7 needed profit
$31

Material: DM $20
OH 3
$23 + ($23 X 30%) =
$23 ÷ $9 (profit) = $30
$61

In most small repair businesses, there is **not** a large amount of overhead cost associated with obtaining parts besides a telephone call to order them. Charging a large amount of overhead to parts may result in pricing yourself out of the market.

By all these methods you are deriving a selling price for your service. Sometimes however you start with the selling price already established — by competition or economic conditions. Then you must figure out the most cost you can incur and still earn your needed profit.

Summary

The total cost of producing a service is composed of direct material, direct labor, and overhead costs. This cost information is used as a basis for setting prices and profit. From alternative pricing methods you select one that earns a satisfactory profit and is easy for you to use. Given regulations, competition, and the economy, you must have a pricing strategy that keeps your service competitive and profitable. The more exactly you figure your costs and set prices, the greater your chances for continued and profitable business.

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U.S. GPO 1985 461 423 20059

A Pricing Checklist for Small Retailers

U.S. Small Business Administration
Number 4.013

Summary

This *Aid* is a checklist for the owner-manager of a small retail business. These 52 questions probe the considerations—from markup to pricing strategy to adjustments—that lead to correct pricing decisions. You can use this checklist to establish prices in your new store, or you can use it to periodically review your established pricing policy.

A retailer's prices influence the quantities of various items that consumers will buy, which in turn affects total revenue and profit. Hence, correct pricing decisions are a key to successful retail management. With this in mind, the following checklist of 52 questions has been developed to assist small retailers in making systematic, informed decisions regarding pricing strategies and tactics.

This checklist should be especially useful to a new retailer who is making pricing decisions for the first time. However, established retailers, including successful ones, can also benefit from this *Aid*. They may use it as a reminder of all the individual pricing decisions they should review periodically. And, it may also be used in training new employees who will have pricing authority.

The Central Concept of Markup

A major step toward making a profit in retailing is selling merchandise for more than it cost you. This difference between cost of merchandise and retail price is called *markup* (or occasionally *markon*). From an arithmetic standpoint, markup is calculated as follows:

Dollar markup = Retail price − Cost of the merchandise

$$\text{Percentage markup} = \frac{\text{Dollar markup}}{\text{Retail price}}$$

If an item cost $6.50 and you feel consumers will buy it at $10.00, the dollar markup is $3.50 (which is $10.00—$6.50). Going one step further, the percentage markup is 35 percent (which is $3.50 ÷ $10.00). Anyone involved in retail pricing should be as knowledgeable about these two formulas as about the name and preferences of his or her best customer!

Two other key points about markup should be mentioned. First, the *cost of merchandise* used in calculating markup consists of the base invoice price for the merchandise *plus* any transportation charges *minus* any quantity and cash discounts given by the seller. Second, *retail price*, rather than cost, is ordinarily used in calculating percentage markup. The reason for this is that when other operating figures such as wages, advertising expenses, and profits are expressed as a percentage, all are based on retail price rather than cost of the merchandise being sold.

Target Consumers and the Retailing Mix

In this section, your attention is directed to price as it relates to your potential customers. These questions examine your merchandise, location, promotion, and customer services that will be combined with price in attempting to satisfy shoppers and make a profit. After some questions, brief commentary is provided.

Yes No

1. Is the relative price of this item very important to your target consumers? ☐ ☐

The importance of price depends on the specific product and on the specific individual. Some shoppers are very price conscious. Others want convenience and knowledgeable sales personnel. Because of these variations, you need to learn about your customers' desires in relation to different products. Having sales personnel seek feedback from shoppers is a good starting point.

2. Are prices based on estimates of the number of units that comsumers will demand at various price levels? ☐ ☐

Demand-oriented pricing such as this is superior to cost-oriented pricing. In the cost approach, a predetermined amount is added to the cost of the merchandise, whereas the demand approach considers what consumers are willing to pay.

3. Have you established a price range for the product? ☐ ☐

The cost of merchandise will be at one end of the price range and the level above which consumers will *not* buy the product at the other end.

4. Have you considered what price strategies would be compatible with your store's total retailing mix that includes merchandise, location, promotion, and services? ☐ ☐

Yes No

5. Will trade-ins be accepted as part of the purchase price on items such as appliances and television sets? ☐ ☐

Supplier and Competitor Considerations

This set of questions looks outside your firm to two factors that you cannot directly control—suppliers and competitors.

6. Do you have final pricing authority? ☐ ☐

With the repeal of fair trade laws, "yes" answers will be more common than in previous years. Still, a supplier can control retail prices by refusing to deal with non-conforming stores (a tactic which may be illegal) or by selling to you on consignment.

7. Do you know what direct competitors are doing price-wise? ☐ ☐

8. Do you regularly review competitors' ads to obtain information on their prices? ☐ ☐

9. Is your store large enough to employ either a full-time or part-time comparison shopper? ☐ ☐

These three questions emphasize the point that you must watch competitors' prices so that your prices will not be far out of line—too high or too low—without good reason. Of course, there may be a good reason for out-of-the-ordinary prices, such as seeking a special price image.

A Price Level Strategy

Selecting a general level of prices in relation to competition is a key strategic decision, perhaps the most important.

10. Should your overall strategy be to sell at prevailing market price levels? ☐ ☐

The other alternatives are an above-the-market strategy or a below-the-market strategy.

Yes No

11. Should competitors' temporary price reductions ever be matched? ☐ ☐

12. Could private-brand merchandise be obtained in order to avoid direct price competition? ☐ ☐

Calculating Planned Initial Markup

In this section you will have to look *inside* your business, taking into account sales, expenses, and profits before setting prices. The point is that your initial markup must be large enough to cover anticipated expenses and reductions *and still produce a satisfactory profit*.

13. Have you estimated sales, operating expenses, and reductions for the next selling season? ☐ ☐

14. Have you established a profit objective for the next selling season? ☐ ☐

15. Given estimated sales, expenses, and reductions, have you planned initial markup? ☐ ☐

This figure is calculated with the following formula:

$$\text{Initial markup percentage} = \frac{\text{operating expenses} + \text{reductions} + \text{profit}}{\text{Net sales} + \text{reductions}}$$

Reductions consist of markdowns, stock shortages, and employee and customer discounts. The following example uses dollar amounts, but the estimates can also be percentages, and if the retailer desires a $4,000 profit, initial markup percentage can be calculated:

$$\text{Initial markup percentage} = \frac{\$34{,}000 + \$6{,}000 + \$4{,}000}{\$94{,}000 + \$6{,}000} = 44\%$$

The resulting figure, 44 percent in this example, indicates what size markup is needed *on the average* in order to make the desired profits.

16. Would it be appropriate to have different initial markup figures for various lines of merchandise or services? ☐ ☐

You would seriously consider this when some lines have much different characteristics than other. For instance, a clothing retailer might logically have different initial markup figures for suits, shirts, and pants, and accessories. (Various merchandise characteristics are covered in an upcoming section.) You may want those items with the highest turnover rates to carry the lowest initial markup.

Store Policies

Having calculated an initial markup figure, you could proceed to set prices on your merchandise. But an important decision such as this should not be rushed. Instead, you should consider additional factors which suggest what would be the best price.

Yes No

17. Is your tentative price compatible with established store policies? ☐ ☐

Policies are written guidelines indicating appropriate methods or actions in different situations. If established with care, they can save you time in decision making and provide for consistent treatment of shoppers. Specific policy areas that you should consider are as follows:

18. Will a one-price system, under which the same price is charged every purchaser of a particular item, be used on all items? ☐ ☐

The alternative is to negotiate price with consumers.

19. Will odd-ending prices such as $1.98 and $44.95, be more appealing to your customers than even-ending prices? ☐ ☐

20. Will consumers buy more if multiple pricing, such as 2 for $8.50, is used? ☐ ☐

21. Should any leader offerings (selected products with quite low, less profitable prices) be used? ☐ ☐

22. Have the characteristics of an effective leader offering been considered? ☐ ☐

Ordinarily, a leader offering needs the following characteristics to accomplish its purpose of generating much shopper traffic: used by most people, bought frequently, very familiar regular price, and not a large expenditure for consumers.

Yes No

23. Will price lining, the practice of setting up distinct price points (such as $5.00, $7.50, and $10.00) and then marking all related merchandise at these points, be used? ☐ ☐

24. Would price lining by means of zones (such as $5.00 - $7.50 and $12.50 - $15.00) be more appropriate than price points? ☐ ☐

25. Will cent-off coupons be used in newspaper ads or mailed to selected consumers on any occasion? ☐ ☐

26. Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image you are seeking? ☐ ☐

27. Do certain items have greater appeal than others when they are part of a special sale? ☐ ☐

28. Has the impact of various sale items on profit been considered? ☐ ☐

Sale prices may mean little or no profit on these items. Still, the special sale may contribute to *total* profits by bringing in shoppers who may also buy some regular-price (and profitable) merchandise and by attracting new customers. Also, you should avoid featuring items that require a large amount of labor, which in turn would reduce or erase profits. For instance, according to this criterion, shirts would be a better special sale item than men's suits that often require free alterations.

29. Will "rain checks" be issued to consumers who come in for special-sale merchandise that is temporarily out of stock? ☐ ☐

You should give particular attention to this desision since rain checks are required in some situations. Your lawyer or the regional Federal Trade Commision office should be consulted for specific advice regarding whether rain checks are needed in the special sales you plan.

Nature of the Merchandise

In this section you will be considering how selected characteristics of particular merchandise affect planned initial markup.

	Yes	No
30. Did you get a "good deal" on the wholesale price of this merchandise?	☐	☐
31. Is this item at the peak of its popularity?	☐	☐
32. Are handing and selling costs relatively great due to the product being bulky, having a low turnover rate, and requiring much personal selling, installation, or alterations?	☐	☐
33. Are relatively large levels of reductions expected due to markdowns, spoilage, breakage, or theft?	☐	☐

With respect to the preceding four questions, "Yes" answers suggest the possibility of or need for larger-than-normal initial markups. For example, very fashionable clothing often will carry a higher markup than basic clothing such as underwear because the particular fachion may suddenly lose its appeal to consumers.

34. Will customer services such as delivery, alterations, gift wrapping, and installation be free of charge to customers?	☐	☐

The alternative is to charge for some or all of these services.

Environmental Considerations

The questions in this section focus your attention on three factors outside your business, namely economic conditions, laws, and consumerism.

35. If your state has an unfair sales practices act that requires minimum markups on certain merchandise, do your prices comply with this statute?	☐	☐
36. Are economic conditions in your trading area abnormal?	☐	☐

Consumers tend to be more price-conscious when the economy is depressed, suggesting that lower-than-normal markups may be needed to be competitive. On the other hand, shoppers are less price-conscious when the economy is booming, which would permit larger markups *on a selective* basis.

	Yes	No
37. Are the ways in which prices are displayed and promoted compatible with consumerism, one part of which has been a call for more straightforward price information?	☐	☐
38. If yours is a grocery store, it is feasible to use unit pricing in which the item's cost per some standard measure is indicated?	☐	☐

Having asked (and hopefully answered) more than three dozen question, you are indeed ready to establish retail prices. When you have decided on an appropriate percentage markup, 35 percent on a garden hose for example, the next step is to determine what percentage of the still unknown retail price is represented by the cost figure. The basic markup formule is simply rearranged to do this:

Cost = Retail price — Markup

Cost = 100% — 35% = 65%

Then the dollar cost, say $3.25 for the garden hose, is plugged into the following formula to arrive at the retail price:

$$\text{Retail price} = \frac{\text{Dollar cost}}{\text{Percentage cost}} = \frac{\$3.25}{65\%\ (\text{or } .65)} = \$5.00$$

One other consideration is necessary:

39. Is the retail price consistent with your planned initial markups?	☐	☐

Adjustments

It would be ideal if all items sold at their original retail prices. But we know that things are not always ideal. Therefore, a section on price adjustments is necessary.

40. Are additional markups called for because wholesale prices have increased or because an item's low price causes consumers to question its quality?	☐	☐
41. Should employees be given purchase discounts?	☐	☐

Yes No

42. Should any groups of customers, such as students or senior citizens, be given purchase discounts? ☐ ☐

43. When markdowns appear necessary, have you first considered other alternatives such as retaining price but changing another element of the retailing mix or storing the merchandise until the next selling season? ☐ ☐

44. Has an attempt been made to identify causes of markdown so that steps can be taken to minimize the number of avoidable buying, selling, and pricing errors that cause markdowns? ☐ ☐

45. Has the relationship between timing and size of markdowns been taken into account? ☐ ☐

In general, markdowns taken *early* in the selling season or shortly after sales slow down can be smaller then *late* markdowns. Whether an early or late markdown would be more appropriate in a particular situation depends on how many consumers might still be interested in the product, the size of the initial markup, and the amount remaining in stock.

46. Would a schedule or automatic markdowns after merchandise has been in stock for specified intervals be appropriate? ☐ ☐

47. Is the size of the markdown "just enough" to stimulate purchases? ☐ ☐

This question stresses the point that you have to observe the effects of markdowns so that you can know what size markdowns are "just enough" for different kinds of merchandise.

48. Has a procedure been worked out for markdowns on price-lined merchandise? ☐ ☐

49. Is the markdown price calculated from the off-retail percentage? ☐ ☐

This question gets you into the arithmetic of markdowns. Usually, you first tenatively decide on the percentage amount price must be marked down to excite consumers. For example, if you think a 25 percent markdown will be necessary to sell a lavender sofa, the dollar amount of the markdown is calculated as follows:

Dollar markdown = Off-retail percentage × Previous retail price

Dollar markdown = 25% (or .25) × $500. = $125.

Then the markdown price is obtained by subtracting the dolar markdown form the previous retail price. Hence, the sofa would be $375.00 after taking the markdown.

50. Has cost of the merchandise been considered before setting the markdown price? ☐ ☐

This is not to say that a markdown price should never be lower than cost, on the contary, a price that low may be your only hope of generating some revenue from the item. But cost should be considered to make sure that below-cost markdown prices are the *exception* in your store rather than being so common that your total profits are really hurt.

51. Have procedures for recording the dollar amounts, percentages, and probable causes of markdowns been set up? ☐ ☐

Markdown analysis can provide information for assist in calculating planned initial markup, in decreasing errors that cause markdowns, and in evaluating suppliers.

52. Have you marked the calendar for a periodic review of your pricing decisions?

Rather than making careless pricing decisions, this checklist should help you lay a solid foundation of effective prices as you try to build retail profits.

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Goal 10.0 To understand financial management and planning

Competencies:

10.1 Plan cash flow to provide funds to meet expenses

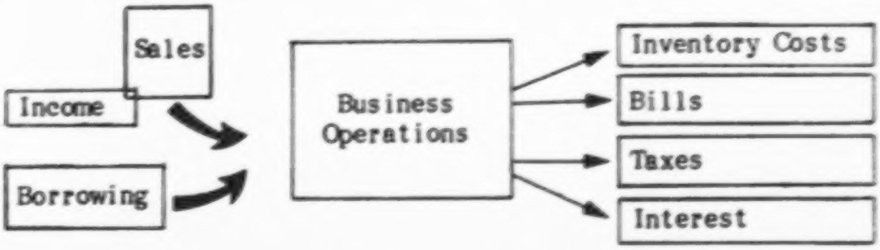
10.2 Use breakeven analysis for planning

10.3 Invest excess funds

Plan Cash Flow

Financial Planning

Financial planning is crucial for a successful business operation. You will need to consider the amount of money actually needed to start your business. Another very important component of planning and budgeting is the cash flow. Very simply stated, cash flow is the influx of money into your business from sales or borrowing to meet the expenses of operating your business, causing cash to flow out of it.



Information Planning

It may be at this point you will actively seek information offered through continuing education resources, your state's small business resources (most likely a part of the Department of Commerce) and the United States Small Business Administration.

You will get the information to fill out the daily cash sheet from some of your records--sales slips, customer account forms, and checking account records. On the left side of the form, you list the money coming into the business that day. The amount of cash is the money coming in from customers who pay for products or services at the same time they buy. The credit sale is the money coming in from a customer who charged the product or service and will pay for them at a later date.

On the right side of the form, list all the money going out of the business. This might include salaries, utilities, equipment, inventory, advertising, and other expenses.

By filling in a cash sheet every day, you can prepare business reports for yourself, the bank, and the government. You can look at your financial reports when you want to make an important business decision.

Other Ways of Keeping Track of Expenses

When you start your home-based business, you will need to keep a file of your unpaid business bills. File bills in order by the date that the bill needs to be paid; then when paying your bills write your checks in that order.

You may also want to keep a separate record or ledger for each type of payment being made. On this form you will record every time money is paid out. When you prepare yearly financial reports, you can easily add up all the figures on the page and determine the total amount spent on a certain item for the year.

A simple record keeping system is adequate for the beginning home entrepreneur; it is called a single-entry system. An office supply store should have a single-entry system available.

Cash Flow

Keeping your home-based business successful is a day-in, day-out job. Besides all the other things you should do to keep the business running smoothly, you have to keep your business successful by making sure you have enough cash, keeping your profits up and your costs down, and improving your products and services.

Many small businesses have "cash flow" problems at one time or another. A cash flow problem occurs when the cash is flowing out of the business faster than it is flowing in. In other words, the business owner has to pay bills promptly every month, but the customers are slow to pay the owner the money they owe.

The reason you will want to keep track of the cash on hand in your business is to be assured that you will have enough money to meet your business expenses. It is recommended that you estimate your cash flow at least a few months ahead. For larger business enterprises some experts recommend estimating the future business plans and expenses over a five year period. This may not be practical or feasible for the small business person or home entrepreneur. However, it might be worthwhile to make future predictions for your business, looking ahead at least one year.

If you project that you will have extra cash you may wish to invest in improving your business, or to put the extra cash in short-term investments to earn some interest.

Conversely, if your business is having cash flow problems, and your future projections indicate a cash shortage, you may have to borrow money to keep going. Paying interest on borrowed money is a significant business expense for the home entrepreneur.

The Cash Flow Statement

A good way to keep track of your cash flow is to use a cash flow statement. Follow the record of your business on a daily cash sheet. Figure out a cash flow statement for the past few months of your business operation. Estimate or project a cash flow statement for the coming months.

A projected cash flow statement follows. It shows the cash you expect to take in and pay out in the next three months.

To figure the amount of cash on hand at the end of the month, subtract the total expenses for the month from the total revenues for the month.

Cash on hand at the end of the month = total cash revenues - total expenses

Date:________________

Cash Flow Statement

(projected for next three months)

Cash Revenues	October		November		December	
Cash on hand from previous month	110	00	588	30	690	10
Revenues from customers	5110	00	5000	00	7500	00
Revenues from interest	18	50	17	00	30	00
Total Revenues	5238	50	5605	30	8220	10
Cash Payment						
Salaries to employees	2540	20	2540	20	2540	20
Supplies	2000	00	2200	00	3200	00
Advertising	60	00	70	00	120	00
Building Expenses	0	00	0	00	0	00
Utilities	25	00	50	00	85	00
Other Expenses	25	00	55	00	100	00
Total Expenses	4650	20	4915	20	6045	20
CASH ON HAND AT THE END OF THE MONTH	588	30	690	10	2174	90

Ways to Improve Cash Flow

To help solve cash flow problems you will find it necessary to look for ways to economize and lower your business operating expenses. You may consider raising prices as another way to increase revenues.

You will want to consider some alternative financing sources that are available to small businesses. If suppliers offer an extended time period for payment of bills, they are offering a form of credit that is really short term financing. When suppliers extend this kind of credit it is called "trade credit." Trade credit is one of the largest sources of small business financing available. Trade credit will only be continued as long as you maintain good relations with your supplier and pay your bills on time.

By negotiating with your supplier you may be able to arrange terms to repay in 30, 45, 60 or 90 days. If your supplier agrees not to change interest if payment is made during the agreed time period, you have been extended short term financing that will be beneficial to your business during a cash flow crisis.

You may need to borrow money from a personal friend or relative. You may need to borrow from a lending institution such as a bank or commercial finance company.

There are several ways to solve a temporary cash flow problem to help avoid making a loan:

--Get customers to pay their bills more quickly.
--Limit credit extended to customers.
--Cut down on goods ordered for inventory or resale.
--Negotiate with suppliers for extended credit terms.
--Search for ways to cut operating expenses.
--Reduce your own salary.
--Use profits to reinvest in the business.

Simple Breakeven Analysis for Small Stores

U.S. Small Business Administration
Number 1.019

Summary

Break-even analysis is not a panacea. It doesn't tell you if your costs are out of line. It tells you only what sales volume you need to cover fixed costs.

It is, however, an excellent starting point for finding out where you are and, more importantly, where you can go. It's a good first step to planning.

This *Aid*, presented as a conversation between a business counsellor (C) and the owner-manager of a small store (O-M), discusses a simplified method of calculating the break-even point for a small retail operation. While this method is not appropriate for manufacturers or large retailers, it provides a financial planning takeoff point for small stores.

O-M I'm ready to expand. I've just had a great fourth quarter. I've got a chance to move to a larger store in a good location. I really think I'm on my way. Still, though, I don't want to take any unnecessary chances and lose what I've built up these first three years. What do you think I should do?

C: **Let me answer your question with a question: What's your break-even point now and what will it be if you assume the added expansion cost?**

O-M: I'm not exactly sure, but after that last quarter I've got money in the bank and I'm paying all my bills on time.

What Bank Balances May Not Reveal

C: **I'm glad to hear you're in good shape, but you can't make an intelligent expansion decision based on your bank balance at a given moment.**

O-M: You ought to know, but why not?

C: **Take your balance now, for example. It's a lot better than it was at the end of the first quarter, isn't it?**

O-M: Sure, but the first quarter's usually slow. It' a fact of retail life.

C: **And the fourth quarter is usually good, right?**

O-M: Yes, that's a fact, too. But mine was outstanding—it was the best I've ever had.

C: **I'm sure it was, but it can distort the picture. If you're relying on your bank balance for a feel for your break-even point, you may just be guessing. Many things influence your bank balance that may not necessarily have a direct bearing on the break-even point for you store. Seasonal fluctuation is just one of them.**

O-M: There are more?

C: **Sure, capital expenditures, extraordinary repairs, unusual outlays . . .**

O-M: Okay, I get the point. My bank balance is meaningless. I shouldn't expand.

C: **We don't know that yet. After we find out what sales volume you'll need to break even, then you'll tell me if you ought to expand or not.**

O-M: Some counsellor. First you tell me I don't know what I'm doing and then you expect me to advise me on expansion.

Break-even Analysis Is Not a Substitute for Judgment

C: **You're wrong on the first half of that; I know you know retailing. But, yes, *you'll* decide on the basis of your business knowledge and judgment whether or not expansion now makes sense.**

O-M: I must be doing something right. I'm still in business.

C: **Exactly. You've made it through some of the toughest business years, the first ones. And you're showing a fair profit. I think you've got a real flair for merchandising.**

O-M: Please, you'll make me blush. What about this break-even thing?

What Break-even Means

C: **Break-even is simply the point where costs equal what you're taking in—no profit, no**

loss—over a relevant sales range. To calculate this point you must work with only two factors, fixed expenses (like insurance or rent) and variable costs (like cost of goods or sales commissions).

O-M: I sure wish my costs were fixed. Everything goes up for me. My insurance, for example, looks likes it's going up 25 percent over last year.

Fixed and Variable Costs

C: **Well, actually "fixed costs" is something of a misnomer. Sure, rents, property taxes, insurance, even the salary you pay yourself may fluctuate—but on a yearly basis and not in relation to sales. For the purpose of break-even analysis every cost that doesn't vary in relation to sales is call "fixed." Your rent, for instance, stays the same for the year whether you sell $250,000 or $2.50 worth of goods, though we know some rents are tied to volume and vary. The same is usually true of utilities, depreciation, and similar expense items.**

O-M: I see the point. Variable costs, then, are basically my cost of sales? I have to buy more if I sell more. If I paid commissions, I'd be paying more for more sales, and that sort of thing.

C: **That's right. There can be other variable costs, but we're simplifying. In addition, you'll probably find costs that seem to be part variable, part fixed.**

O-M: You mean they're "semi-variable" or "semi-fixed?"

C: **Yes, they're costs that remain fixed up to a certain sales volume and then jump as that volume is exceeded. For example, office costs, or delivery expenses may fit in this category.**

O-M: How do I treat them?

C: **Use your good business judgment and split them between fixed and variable costs in what you consider a reasonable proportion. The important thing to hold in mind for simple break-even analysis is to *keep it simple*. Oversimplicity is, of course, a drawback of this method. But simple break-even analysis really helps you to see your way into a planning problem and to establish its perimeters.**

O-M: I like the idea of simplicity, but I don't think break-even sounds simple so far.

C: **I think you'll see how easy it is if we work through an example. Here, take a look at this hypothetical income or profit and loss statement for the B-E Retail Store.**

B-E Retail Store
Income Statement
For the year ending December 31, 19____

Item	**Amount**		**Percent**
Sales		$60,000	100
Cost of Sales		42,000	70
Gross Profit		**18,000**	30
Expenses:			
Rent	$ 1,800		3
Wages	12,600		21
Utilities	2,400		4
Insurance	1,200		2
Taxes	600		1
All Other	600		1
Total Expenses	**19,200**		32
Loss for Period		**($ 1,200)**	**(2)**

O-M: B-E doesn't seem to have broken even.

C: **Correct. Let's find out what kind of sales volume B-E needed to break even in that year. For simplicity (there's that word again) let's consider cost of sales (which is 70 percent of sales) as the total variable costs and the expense items of $19,200 as the fixed costs. We calculate the break-even point by using an algebraic formula.**

O-M: A simple one, I hope.

C: **Of course. It's just $S = F + V$, where:**
S = Sales at the break-even point,
F = Fixed expenses, and
V = Variable costs and expenses as a percent of sales.

: All right, we know B-E's variable and fixed costs. How do we get sales?

C: **Let's plug in the figures:**
S = $19,200 + .70S
10S = $192,000 + 7S

O-M: Excuse me, 10S?

C: **I multiplied the whole equation by 10 to get rid of the decimal fraction, because I think it's easier to work with whole numbers. Anyway, we get:**
10S - 7S = $192,000
3S = $192,000
S = $64,000

O-M: B-E needed $64,000 total sales to break even? Anything less, they'd have a loss; anything more they'd make a profit?

C: **You've got it. Let's check it, though, just to confirm it:**

Sales	**$64,000**	
Less Cost of Sales	**-$44,800**	**(70% of sales)**
Gross Profit	**$19,200**	
Less Expenses	**-$19,200**	
Profit or Loss	**$0**	

O-M: Okay, so B-E has broken even. I think they'd like to make a profit. I know I do.

Calculating Break-even for a Given Profit

C: **We can find out what kind of sales B-E needed to make a profit using the formula again. Leaving the other figures the same, let's put in a modest profit—say, $9,000—and see what sales they needed. The formula now looks like this:**
Sales = Fixed Expenses + Variable Costs + Profit.

O-M: You just add the desired amount of profit in?

Yes, really it affects the break-even point just like a fixed expense:
S = $19,200 + .70S + $9,000 (desired profit)
10S = $192,000 + 7S + $90,000 (multiplied by 10 to eliminate fraction)
3S = $282,000
S = $94,000

O-M: May I check the figures this time?

C: **Certainly.**

O-M: All right, let's see:

Sales	$94,000	
Less Cost of Sales	-$65,800	(70% of sales)
Gross Profit	$28,200	
Less Expenses	-$19,000	
Profit	$ 9,000	

C: **Convinced?**

O-M: Yes, I can see how this formula can help you find how much you need to sell to break even or make a given profit, but what about my problem?

Break-even Analysis for Planning

C: **Break-even analysis is just what you need. It's primarily a planning tool. I've looked at your Income Statement and divided it into fixed and variable costs. As I see it, your cost of sales, which we'll consider as your total variable costs, comes to about 60 percent of sales. Your fixed expenses ran about $60,000. So for last year:**
S = $60,000 + .60S
10S = $600,000 + 6S
4S = $600,000
S = $150,000
You had to sell only $150,000 worth of merchandise to break even.

O-M: As you can see, I sold $200,000 worth, but I didn't make a $50,000 profit.

C: **Right, you made a $20,000 profit just as the bottom line indicates. Remember, you still had those variable costs on sales even after all of your fixed expenses were covered at the $150,000 level.**

O-M: Oh, I see, it's like this:
S = F + V + Profit
S = $60,000 = .60S = $20,000
10S = $600,000 + 6S + $200,000
4S = $800,000
S = $200,000

C: **Now you've got it. Let's consider your expansion question. How much will your rent increase?**

Using Break-even Analysis to Examine Expansion Feasibility

O-M: It would be about $5,000 more. I figure the utilities for the larger space will be $2,000 more than I paid last years. Taxes, the "fixed" ones, I expect to run about $1,000 more and my insurance will increase about $500. I also think I may need to hire another sales person.

C: **Let's say you do. What do you plan to pay?**

O-M: I'd pay an experienced sales clerk about $9,000. I'm toying with the idea of instituting a 2 percent commission on sales as an incentive, too.

C: **All right. We know it's not as simple as we'll lay it out, but I think the analysis will give you an idea of whether or not to explore the expansion idea more carefully and in greater detail.**

O-M: Fine.

C: **Your fixed expenses will rise by $17,500, if you include hiring another employee. That brings them to $77,500, assuming no other increases from last year's $60,000. For simplicity's sake let's assume your cost of sales (your variable costs) will increase only by the 2 percent commission. That means 62 percent of sales for variable costs. So:**

$S = \$77{,}500 + .62S$

$100S = \$7{,}774{,}000 + 62S$ (multiplied by 100 to eliminate fraction)

$38S = \$7{,}775{,}000$

$S = \$205{,}000$ (approximately)

O-M: Only $5,000 more than I did last year? I can do that easily.

C: **And be $20,000 in profits worse off than last year. Let's put last year's $20,000 profit in—in an expansion you still might want to do at least as well:**

$S = \$77{,}500 + .62S + \$20{,}000$

$100S = \$7{,}750{,}000 + 62S + \$2{,}000{,}000$

$38S = \$9{,}750{,}000$

$S = \$257{,}000$ (approximately)

O-M: Hm, that's approximately a 25 percent sales increase just to make the same profit as last year.

Business Judgment Still Necessary

C: **Do you think you can boost sales by that much? Perhaps you see long range benefits from expansion that justify sacrificing some profit for the short run.**

O-M: I'm not sure. I'll have to give it more thought, look at the trends in my business and in this area. My pricing policy may need adjustment. Maybe I can cut some costs. But now at least I've got a starting point, a dollar figure I can work with and from. Most importantly of all, I have a technique to help me attack my problem and help point me toward a rational decision.

C: **That's what break-even analysis is all about.**

Invest Excess Funds

Introduction

A business should create wealth. One way to do this is through investment. There are three basic categories of financial investments. They are:

1. portfolio investments,
2. real estate investments, and
3. investment in business.

A business must look at all its choices. It then chooses the best one or ones to meet its needs and goals at that time. A business might make an investment one year that it would not choose another year. Investment in human resources is also discussed.

Portfolio Investments

In business, the term "paper" means a pledge to pay. The pledge or paper can be sold or traded, making it negotiable. For example, a check is a type of "paper" because it promises to pay with money that is in your bank account. It is negotiable because it can be traded to someone else for cash or for something of equal value.

A business portfolio consists of its "paper" investments. A portfolio can include both short-term and long-term investments. Short-term investments usually mean from one to five years. Long-term investments mean more than five years.

There are eight kinds of investments which involve "paper." They are:

1.	share accounts	Fixed-Income Paper Investments
2.	U.S. Treasury bills and obligations	
3.	federal agency notes	
4.	bank time deposits and certificates of deposit	
5.	commercial paper	
6.	bonds	
7.	common stock	Growth-Income Paper Investments
8.	mutual funds	

Portfolio: Fixed-Income Paper Investments

Fixed-income paper investments are investments that have an expected yield or rate of return. These terms refer to the interest earned for a one-year period from a paper investment. It is expressed as a percentage of the investment amount. For example, the rate of return of a savings account at a bank may be five percent a year.

Advantages of fixed-income investments are: a) they will produce dividends or interest; b) they are relatively easy to turn into cash; c) they produce return in a relatively short time; d) they require little or no management; and e) they are generally low-risk. Let us take a closer look at the six kinds of fixed-income paper investments.

1. **Share Account.** A business can always invest in a credit union share account. This means a business deposits money into a credit union account. In banks, it is called a bank account; in credit unions, it is called a share account. These accounts are insured by the Federal Government (in case the credit union fails or the money is stolen) and they pay interest. The amount of interest paid by a credit union is the business's opportunity rate of return or the largest amount of income that can be produced from a risk-free investment. It becomes the standard by which all other business investments are judged. If a share account pays seven percent, then all other investments must pay seven percent or more. Seven percent is that business's opportunity rate of return.

2. **U.S. Teasury Bills and Other Obligations.** U.S. Treasury bills are sold for less than the amount that is shown on the face. This is called being sold at a discount. When the bill matures, in three, six, nine months, one year, etc., it can be turned in for the face amount. The difference between the amount you paid and the face amount is the profit on the investment. These are very safe investments and have a high liquidity. That means they can be easily changed into cash if needed.

The U.S. Teasury also issues other kinds of paper investments:

a. Bonds--these mature in more than seven years and cost $25 or more;
b. Notes--these mature in less than seven years and are sold in thousand dollar amounts;
c. Certificates of indebtedness--these mature in a year or less and cost all different amounts.

U.S. Treasury paper is considered to be the most conservative investment possible when it is held till maturity.

3. **Federal Agency Notes.** These are like Treasury paper because they are safe and highly liquid. Examples of federal agency notes are: Federal Home Loan bank notes and Tennessee Valley Authority notes.

4. **Bank Time Certificates of Deposit.** A business can deposit money in a bank for a certain length of time. The bank pays interest on the deposit. This is called a Time Certificate of Deposit, or TCD. It is non-negotiable and has a fixed maturity date. Banks also issue negotiable certificates. These are just like TCDs, except they usually require much larger deposits.

5. **Commercial Paper.** These are notes issued by major finance and industrial companies. They are issued for short periods of time to raise working capital.

6. Bonds. A bond is a type of loan made by a) the federal government; b) state or local government; and c) private business corporations. State and local government bonds can be tax exempt, but usually pay lower interest than private corporate bonds. Most bonds are considered to be relatively low-risk investments. Bonds have a fixed rate of return over a specific period of time. When they mature (in 1 to 30 years) they can be cashed in for their face value.

All of the first six examples of paper investments produce the best yield of low-risk investments. More information about them can be obtained from an investment banker.

The chart below shows what the rate of return was on several types of fixed-income paper investments for the year 1977.

WHAT YOU CAN GET FOR YOUR DOLLAR

If you had put your money in:	Your yield would have been: %
U.S. Treasury Bills (90 days)	5.20
U.S. Treasury Bills (180 days)	5.50
Canadian Treasury Bills (90 days)	5.20
TCDs (less than 90 days)	5.38-5.63
TCDs (more than 90 days)	5.75-6.0
Government bonds-short term	5.80
Government bonds-long term	7.40
Municipal bonds-long term	5.71
Corporate bonds	8.47
Utility bonds	7.20

Source: Continental Bank, Wright Investors' Service.

Portfolio: Growth-Income Paper Investments

1. Common Stocks. Shares of ownership in a business or corporation are known as common stock and are one of the major factors in the American economy. They are the usual means of raising money for a corporation. Investment in common stocks makes money in two ways. The board of directors can declare a dividend. This is paid to stockholders. Second, the value of stock can increase, so it is worth more than the original price. For these reasons, the investment in common stock paper can grow and is called a growth-income paper investment. This is different from the first six kinds of paper which produce a fixed rate of return.

There are two major disadvantages to common stock. a) There is no assurance that the money invested will be paid back. It is a higher risk investment than the first six kinds of paper. Investments in common stock should be limited to the amount of money a person or corporation can afford to lose if the business fails. b) The stock market changes daily, so the value of stock changes daily. The value of common stock will go up and down, on a daily basis, but eventually be worth more if the business grows.

2. Mutual Funds. Many investors buy shares in a professional investment company or "mutual fund." The investment company then buys and sells stock in other companies. Mutual funds have several advantages, even for the smaller investor.

a. The investment company spreads its investments around by buying into several companies. This cuts down on the risk of loss by any one investment.
b. Mutual fund stock is highly liquid. It can be bought and sold like common stocks.
c. Professional management, rather than each investor, determines what the mutual fund will invest in and how the investment will be managed.

Real Estate Investments

Real estate investment is the investment of money into industrial, commercial or residential type lands and buildings with the idea of earning more money. Real estate investments create profits for the investor in two ways:

- income from rents and leases (this is commonly called the annual income flow);
- increase in value of property so it can be sold for more than it cost.

Income from rents and leases. While these can go up or down, they are usually fixed for a certain time period by a contract. This is predictable income.

Increase in value. The increase in value of something is called appreciation. Just like paper investments, a business should know when it can expect to make some money from its investments in real estate. There are two values to consider when selling a real estate investment. One is the book value. The other is the market value.

Book value is the amount paid less the depreciation. Buildings and equipment wear out as they get older. They depreciate.

Market value is what the investment is worth on the market. That is, what someone will pay to buy it. While the book value usually goes down due to depreciation, the market value usually goes up. This increase is called capital appreciation.

Property taxes. It must be remembered that as the value of real estate increases, the property tax on it also increases. An investment in real estate should produce enough income to cover this additional cost.

Mortgaging real estate. If the business owns real estate and needs some money faster than it could get by selling its property, it can mortgage it at a bank or credit union. To mortgage means that the bank or credit union loans money on the value of the property and then "owns" the property until the debt is paid off. If the debt is not paid off when due, the lender keeps the property. As the value of the real estate increases, more money can be borrowed against it. Mortgaging is a good way to get cash quickly and still have full use of your property.

Investment in Business

Like all other investments, a business venture must produce profits for the business. A decision to invest in business must take many factors into consideration. Possible business investments include:

- construction companies
- security company
- general store
- trailer sales
- barge line
- airline
- fishnet company
- timber industry
- fuel oil distributorship
- fishing fleet
- theater
- bowling alley
- trucking company
- bank
- fishing cannery
- hardware store
- boat charters
- air freight line

Investment in Human Resources

A few words also need to be said about a fourth kind of investment--investment in human resources. This is not investment in the strict financial sense. A business needs financial profits, but it also might want to improve the welfare of its people. To do this, the business could decide to invest some of its capital in human resources.

The most common investments in human resources are training programs and education. There is no guaranteed financial rate of return on these investments. But the "yield" might be high in terms of peoples' well-being. Also, a business could be more successful in the future if it has adequately educated and trained its employees in the present. Also, business money donated to a nonprofit organization such as an educational or training center, would be tax-exempt. For these reasons, investment in human resources is a subject worth consideration.

from Investment Decision Making, Cooperative Extension Service, University of Alaska, Fairbanks, AK 99701. Publication #A-3-051.

Goal 11.0 To understand how to design the space needed for the business

Competencies:

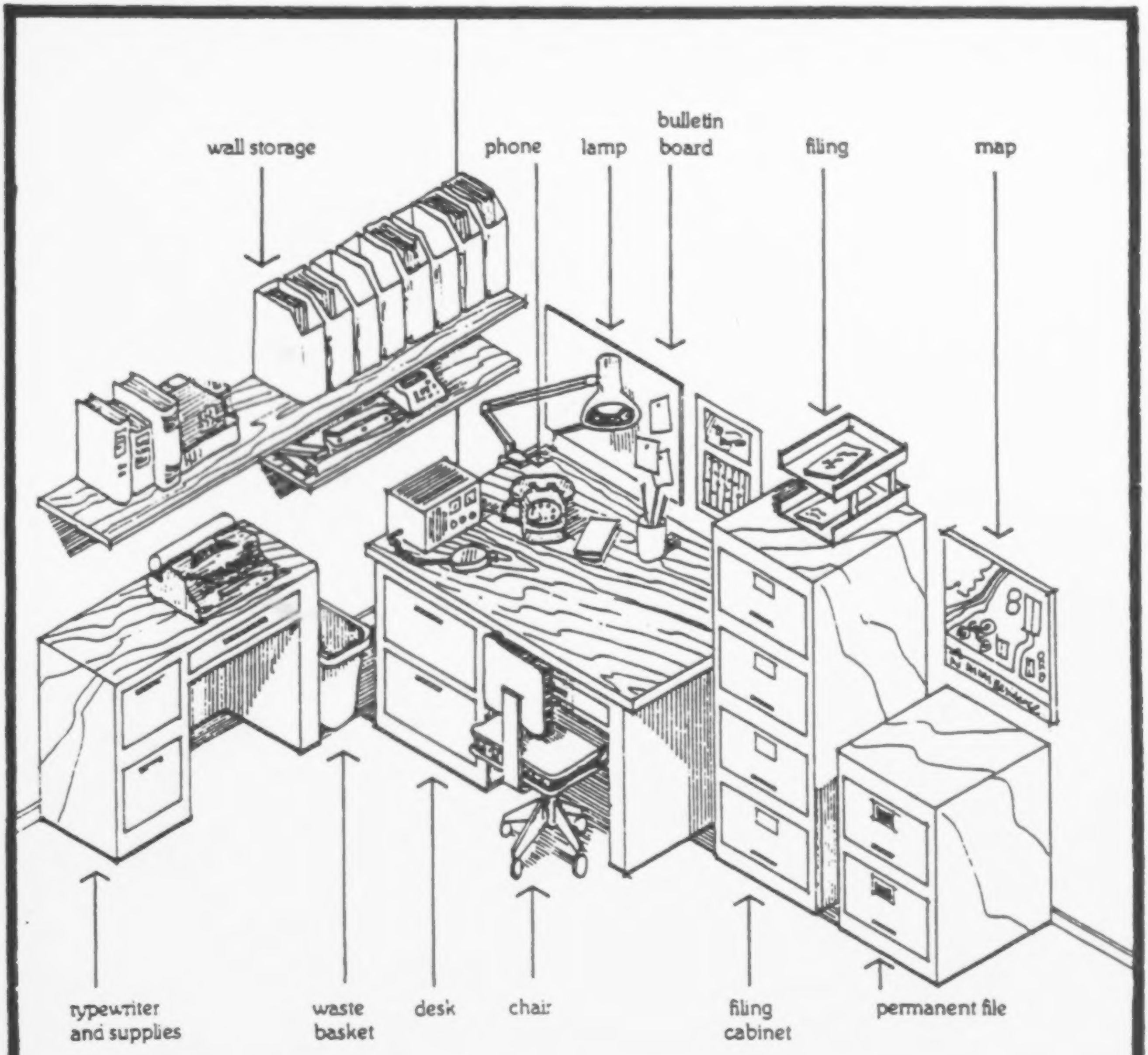
11.1 List all of the items needed to start the business

11.2 Make a diagram showing how work area is to be arranged, including equipment, storage, display, and customer areas

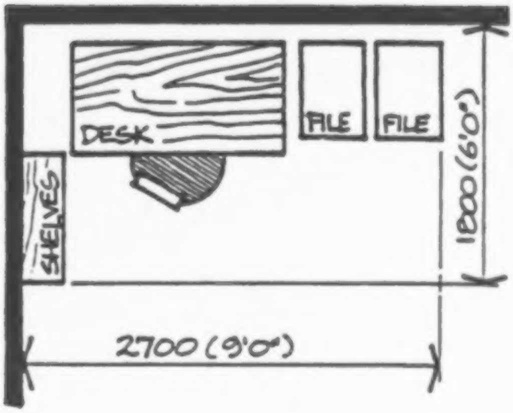
What Makes a Good Office

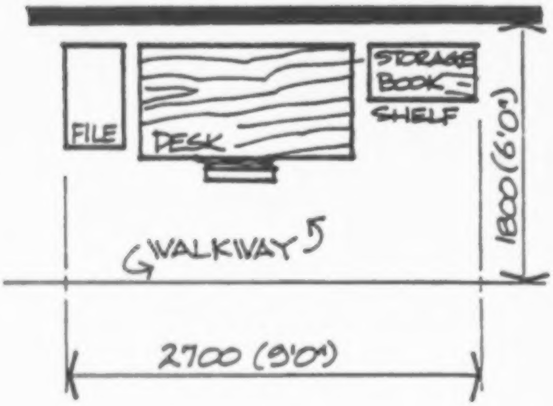
Your office furnishings will have to be geared to the space you make available for an office. Costs can be kept down if you buy used office furnishings or buy unfinished wood furniture and finish it yourself. Some desks and other furnishings can be easily made or converted if you are handy with tools. Measure the space available and sketch a plan before making any purchases.

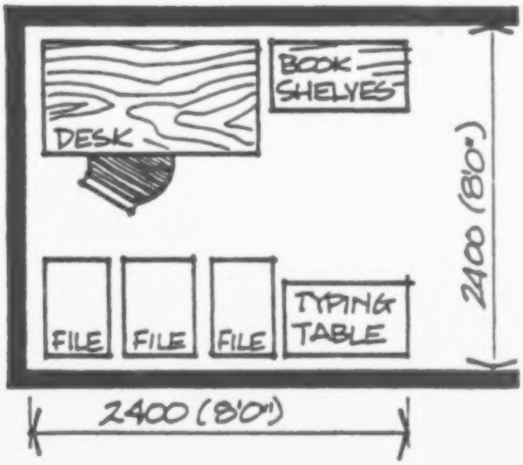
If an office is worth having, it's worth setting up in a comfortable style. Here's a checklist of what's needed for an efficient office.



Ideas for Setting Up a Home Business Center







Office space

Goal 12.0 To understand computerized programs available for recordkeeping

Competencies:

12.1 Identify computer programs that can be used for recordkeeping for home-based businesses

Identify Computer Programs

The following information outlines software available to help the home entrepreneur in record keeping.

Title: Accounts Payable

Source: Continental Software

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: Continental's Accounts Payable is one of a set of related accounting programs, each sold under the title The Computer Programmed Accountant (CPA). Although this package is fully capable of stand-alone use, in the set each package can interact with all the others in sharing data. This package accepts invoice data from the user and maintains all the standard files: vendor lists, cash requirements, discounts, payment due dates, aging data, a list of open invoices, and a transaction register. The user directs the program to pay selected invoices, or to pay specified categories of invoices. The computer then prints required checks and enters the data in the check register.

* * * * *

Title: Accounts Payable

Source: Peachtree Software

Cost: $595 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, printer

Description: As a part of a larger, integrated accounting system for the IBM PC, Peachtree's Accounts Payable provides the small business manager with many valuable tools. Included are vendor records, payment due dates, discount amounts and dates, and cash requirements. The package contains fifteen separate programs that accept input, create further data, prepare reports, and instruct the user as to what further information is needed. Available reports include cash requirements, open invoices, transaction register, aging report, and a vendor file. Once the user directs the computer to pay an invoice, it prints the check and updates the internal check register. The system is menu driven for simplicity of operation.

* * * * *

Title: Accounts Payable

Source: Radio Shack

Cost: $499 for Model 11 and 12; $599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12 or 16, 2 disk drives or hard disk, 15: tractor printer

Description: This program is part of a complete accounting package, all of which can interact with mutually usable files. This is an accrual system that provides: vendor file, alphabetical vendor list, accounts payable transaction register, aging report, cash requirements, precheck writing accounts, check register, general ledger distribution, and manufactor analysis.

* * * * *

Title: Accounts Receivable

Source: Continental Software

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: This program is one component of the Computer Programmed Accountant (CPA) by Continental. It can be used as a stand-alone system. Accounts Receivable allows for printing invoices or statement billing on purchases. The vendor sells preprinted invoice forms or the user can use regular computer paper. Reports include current receivables, aging receivables, monthly sales, year-to-date sales, customer lists, mailing labels, and general ledger posting reports. The detailed aging report includes customer phone number for quick follow-up.

* * * * *

Title: Accounts Receivable

Source: Peachtree Software

Cost: $595 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: This program is designed to interface with the General Ledger System by Peachtree; however, either package can operate alone. This is a complete invoicing and statement-generating package that is fully menu driven for simplicity of use. Customer records, including credit information and payment records, are maintained automatically. The program provides current accounts receivable as well as three periods of aged receivables. It can also handle customer credit limits, overpayments, prepayments, credits to accounts, and multiple transactions to open accounts.

* * * * *

Title: Accounts Receivable

Source: Radio Shack

Cost: $499 Models 11 and 12; $599 for Model III (as of 12/1/83)

Hardware Requirements: TRS-80 Models 11 and 12 require 2 disk drives or hard disk, 15" tractor printer

Description: Part of a fully integrated accounting system, Accounts Receivable allows for open item or balance forward operation that provides for invoicing either at sale or statement billing; current receivables as well as aging reports, with or without details; customer accounts details such as payment record, discounts, balances, and amount due at any given time; and customer sales tax variations based on tax codes, figuring of commissions, and discounts in computing net amounts due.

* * * * *

Title: AMOS

Source: Computer Software International

Cost: $1,850 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: AMOS is a medical database management system that can be used to serve only one doctor or a multidoctor office, or can be used on a networking basis to serve multiple offices. It features medical data and history collection using the national AMA format that lets doctors collect directly form Medicare, Medicaid, Blue Cross/Blue Shield, and EMC. Charges can be specified to patient accounts, statements are generated, mailing labels are printed, and payments are recorded and credited. Appointment scheduling is maintained and the doctor's free time is indicated.

* * * * *

Title: AppleWriter II

Source: Apple Computer

Cost: $195 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe with 80-column card, 48K, printer

Description: This is a much improved version of Apple's original AppleWriter. It is a good word processing system for the money and quite adequate for most home and small business applications. It provides a tutorial section in the appendix, which leads the beginner through simple commands. This is not a menu-driven system, so the user must memorize a large number of CTRL keys and special commands. It does, however, have a very complete help subprogram that can be viewed at any time without losing any text in the computer. One advantage of this program is its efficiency. Relatively little memory space is occupied by AppleWriter II at any time, thus allowing for much larger test files than many other word processing packages.

* * * * *

Title: Autoshop

Source: Dale-Data Data Processing Service

Cost: $865 & up (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: This package solves day-to-day problems associated with the management of an auto repair shop; maintains customer repair orders, customer order invoicing, supplier lists, and mailing lists; and provides profit reports by single mobs or by time frame. It includes a payroll system for employees using any one of four methods to figure gross pay.

* * * * *

Title: Business Graphics Analysis Pak

Source: Radio Shack

Cost: $174.95 (as of 12/1/83)

Hardware Requirements: TRS-80 Model III, 48K, disk drive, graphics printer or multipen plotter

Description: The user supplies the types of graphic required, the number of elements, labels, and item values. The program does the rest. Disk files, such as VisiCalc, can be used to provide the data. TRS-80's excellent color graphic printer produces high-quality reproductions of the graphics as seen on the screen.

* * * * *

Title: Client Billing System

Source: High Technology Software Products

Cost: $100 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 132 column printer, 1 or 2 disk drives

Description: Client Billing System keeps track of customer/client transactions using either an hourly or a fixed rate charge. The system will accommodate up to five hundred different rates. Menu driven, the package handles job cost analysis, payments, and charges.

* * * * *

Title: Computerized Farm Records

Source: Micro LearningWare

Cost: $99 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, TRS-80, 32K, disk drive, printer

Description: This package provides a very simple general ledger system, tailored specifically for farm operation. It accepts expense, receipts, and enterprise records. Transactions can be taken directly from the checkbook and deposit slips. It provides reports showing cash receipts and disbursements on a month-to-date and a year-to-date basis either by enterprise or in total. Also available are capital purchase status reports, financial statements, and an income statement. Noncash transactions can be accommodated. The program is fully menu driven. While more expensive packages provide more sophisticated capabilities, this package performs many functions for a relatively low price.

* * * * *

Title: Discounted Cash Flow Analysis

Source: Isaac Software

Cost: $35 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, disk drive, printer

Description: This package discounts or accumulates cash flow at specified interest rates or solves for yield. Cash flow data can be entered for any day in a year from 1950 to 2049. It includes extensive editing and data handling capabilities. Files can be updated or merged as needed.

* * * * *

Title: EZEntry

Source: Systemics

Cost: $99.95 (as of 12/1/83)

Hardware Requirements: IBM PC, 64K, 2 disk drives, printer

Description: EZEntry is an order-entry program that stores up to two hundred product codes and can handle up to five hundred orders per storage diskette. It accepts order entries and computes costs, tax, discounts, and wholesale and retail price. It also prints customized invoices. For the user with some computer experience, the files can be interfaced with accounting software; however, this package does not offer that capability.

* * * * *

Title: General Ledger

Source: BPI Systems

Cost: $395 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: General Ledger by BPI is well respected in the industry. It can be used as a stand-alone system or it can function as a part of the integrated general accounting system by BPI. The very thorough documentation is designed for the nonexpert and a simulated business is set up on diskette to illustrate the program for the beginner. It works from a general journal that interfaces with all other subsidiary ledgers in the system. This system allows for the creation of up to four hundred general ledger accounts, one hundred payroll ledgers, five hundred accounts receivable ledgers, two hundred accounts payable ledgers, two hundred cash disbursements records, and an invoice register. The BPI system includes accounting functions that must be purchased separately in many other systems.

* * * * *

Title: General Ledger

Source: Peachtree Software

Cost: $595 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, 64K, IBM PC DOS and disk BASIC extension.

Description: IBM considers this package to be the "heart" of its total accounting system. It can stand alone or interact with an integrated series of general accounting programs by the same vendor. It maintains a detailed account of all financial transactions and produces balance sheets and income statements. A transaction register is generated by account number, source, entry session, or department, at the user's discretion. It allows for comparison of prior-year records to budget amount for the current year. Repeating entries are made automatically. The system contains a depreciation-schedule-generating function.

* * * * *

Title: General Ledger

Source: Radio Shack

Cost: $499 for Model 11 and 12; $599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12 or 16, 2 disk drives or hard drive, 15" printer with tractor drive

Description: This program is designed to stand alone or to interact with the complete accounting system marketed by Radio Shack. It allows for establishment of accounts payable, accounts receivable, and payroll ledgers. The system generates the following reports: income statement, balance sheet, supporting schedules, accounts chart, financial statements, a register of general ledger transactions, trial balance work sheets, and cash flow statements.

* * * * *

Title: Infotory

Source: SSR

Cost: $425 for IBM; $295 for Apple (versions are not interchangable) (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, IBM PC, 64K, 2 disk drives, printer

Description: Infotory is a complete inventory management system on Apple with DOS 3.3 and can maintain about 1,200 inventory items; DOS 3.2.1 can handle about 1,000 different items. On IBM, single-sided drives can maintain records on 2,600 different items; double sided drives can handle about 5,000. Documentation is quite complete and the package is menu driven. Infotory allows the user to make entries and inquiries on individual terms at will. Inventory reports, sales analyses, cost analyses, and price lists can be obtained, as well as on-hand and on-order cost and numbers for individual items. The program includes a reorder reminder when items are running low in stock and provides a reorder list on com mand.

* * * * *

Title: Insure

Source: The Software Terminal

Cost: $250 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, 2 disk drives, printer

Description: This package is designed to assist in the management of a small-to medium-sized insurance agency. It stores client records of almost forty items in the client master file. Also included are separate files on policies and paid and pending business. Mailing lists and labels are available on demand.

* * * * *

Title: Inventory Control

Source: BPI Systems

Cost: $425 (as of 12/1/883)

Hardware Requirements: Apple II, II+, IIe, IBM PC, 2 disk drives, printer

Description: The BPI Inventory Control package is designed to operate alone or in conjunction with the General Accounting System that includes a total of five applications packages: payroll, general ledger, accounts receivable, accounts payable, and inventory control. This highly automated system is fully menu driven and includes tutorial materials in the documentation to teach the beginning user. Each inventory record includes fifteen items of information. The program takes orders, inquiries, updates, purchases, credit memos, and other user input; produces shipping orders, routing slips, purchase orders, invoices, customer lists, and vendor lists; and provides numerous management reports such as inventory control general ledger, profit and loss statements, trial balances, order lists, and cash receipts, among many others. This is a very complete and versatile system.

* * * * *

Title: Inventory Control System

Source: Radio Shack

Cost: $299 for Model 11; $399 for Model 11 and 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 with floppy or hard disk, Model 16 with hard disk

Description: The program assists in cycle counting, ordering, and report generation. As purchases are made, the program posts receipts, prints mailing labels, and fully maintains files on listed items. Inventories are updated as purchases are made and reorder lists and company purchase orders are prepared as inventories are depleted.

* * * * *

Title: KYC (Know Your Client)

Source: Executive Microcomputing Software

Cost: $124.95 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, 48K, disk drive, printer optional

Description: KYC is a client-prospecting and follow-up system. It maintains information on client name, title, address, phone, company name, and data on last contact; keeps track of "callback request"; and provides lists of clients who have not been contacted in the last thirty and sixty days. Mailing lists and mailing labels can be generated.

* * * * *

Title: Lazy Writer

Source: AlphaBit Communications

Cost: under $50 (as of 12/1/83)

Hardware Requirements: TRS-80, 32K, disk drive, printer

Description: Using this standard word processing package, the operator can produce letters, forms, memoranda, mail labels and lists, manuscripts, and other written material of any length. Features are fairly standard. Included are boldface and underlining, which are not contained in many word processing packages.

* * * * *

Title: Money Decisions, Vol. I, Vol. II

Source: Eagle Software Publishers

Cost: $199 for Vol. 1: $299 for Vol. II: $399 for Vol. I and II (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, TRS-80 (TRS-80 uses CP/M), disk drive, printer

Description: This is a sophisticated set of programs that facilitates management decisions. It allows such comparisons as lease versus buy and provides analyses of break-even points. Trend analysis and projection and pricing and production decisions are handled as well as capital budgeting. In addition, the program has extensive graphics capability for graphic analysis and additional applications for accounting, banking, manufacturing, medicine, construction, civil engineering, and equipment leasing. Vol. I consists of thirty-four programs, Vol. II has thirty-six programs.

* * * * *

Title: Multiplan

Source: MicroSoft

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, IBM PC, TRS-80 Model 1, 11, 111, disk drive, printer

Description: Multiplan is an electronic spreadsheet with up to 255 rows and up to 63 columns. Each cell in the matrix starts out blank, but the user can enter numbers, labels, or formulas as desired. No knowledge of programming is required; however, effective use of such programs requires that the user learn the package and its commands thoroughly. Tutorial examples are included in the documentation for this purpose. Multiplan allows the user to "link" up to eight different files on the diskette for more complex analyses. This feature allows the user to make an entry on one spreadsheet and have all of the cells that are affected in the other sheets automatically updated. Electronic spreadsheets are ideal for financial projections, comparison of management alternatives, and answering "what if" questions using budget data or production data. Like other spreadsheets, Multiplan can be used in such "modeling" or simulation roles.

* * * * *

Title: Order Entry/ICS

Source: Radio Shack

Cost: $499 for Model 11; $599 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 and 12 with 4 disk drives or hard disk, Model 16 with 3 disk drives or hard disk, 15" wide printer

Description: This package is one part of a complete accounting system marketed by Radio Shack. It requires and interacts with the Accounts Receivable package and feeds information to the Sales Analysis Program. Orders are entered and edited as needed. The program provides the following reports: item receipt register, billing register, picking tickets, order list, price list, item stock status report, and a purchasing advice report. The program allows either single-pass invoicing or a two pass order with separate billing.

* * * * *

Title: The Order Scheduler

Source: High Technology Software Products

Cost: $150 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, printer, 2 disk drives

Description: The Order Scheduler accepts purchase order entries from the user and maintains them on a first-in, first out basis until they are shipped. It prints a complete daily shipping list, maintains a current inventory of shipped items, and deletes items from inventory as they are purchased. Purchases that are to be filled repeatedly can be entered once and reactivated at the specified interval. The system can handle up to five hundred separate purchase orders at a time.

* * * * *

Title: P.A.C.E. (Prompt Accurate Cost Estimator)

Source: High Technology Software Products

Cost: $395 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, III, IBM PC, 64K, 2 or 3 disk drives, 132-column printer

Description: P.A.C.E. is a general purpose cost estimation system that accepts detailed budgetary input from the user. As in all spreadsheet-type programs, it is not a substitute for accurate budgeting and record keeping on the part of the user. It provides a detailed statement of estimated cost, including a list of resources needed and time requirements. When prices or estimated data change, the program automatically recalculates and updates throughout the system.

* * * * *

Title: Payroll

Source: Continental Software

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 disk drives, printer

Description: Continental Software has assembled a complete four-module accounting system, of which Payroll is one part. Complete personnel files are maintained on each employee to include: time worked, wage or salary, earnings, withholdings, vacation time earned and used, sick leave time earned and used, and more. The program includes current federal income tax and FICA tables that can be updated by the user as they change. The program calculates the payroll, prints the checks, and updates the payroll account automatically. For an additional fifty dollars yearly, Continental will supply updated tax data disks.

* * * * *

Title: Payroll

Source: Radio Shack

Cost: $599 for Model 11 and 12; $699 for Model 16 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11, 12, or 16 with 2 disk drives or hard disk, 15" printer with tractor drive

Description: This is a complete payroll system that accepts wage or salary data, computes payroll, and prints checks. It then interfaces with the general ledger system to update the payroll account contained there. It handles hourly or salaried employees and allows up to seven different payroll frequencies. Vacation, sick leave, and recall information are maintained, and up to one year of detailed pay history can be recalled. The package computes deductions for taxes and prints out W-2 forms at the end of the year.

* * * * *

Title: PFS:File

Source: Software Publishing

Cost: $125 for Apple; $140 for IBM (as of 12/1/83)

Hardware Requirements: IBM PC with 64K, Apple II, II+, IIe with 48K, 1 disk drive required, 2 disk drives preferred, printer

Description: A very sophisticated data management system, PFS:File has excellent documentation and is easy to learn and simple to use. It allows the user to develop virtually any data format required. The screen shows exactly what the printed matter will look like to facilitate form design. Item lengths are completely open up to the maximum length of a given form. This feature allows for descriptive material or remarks sections to be included. The current version includes numerical or alphabetic searches and sorts: keyword, greater than, less than, between, and "not" searches. Updating of existing entries, addition of new entries, and reformatting of existing formats can be accomplished without loss of data previously entered. Mailing labels, checks, and forms of almost any kind can be printed. Only one type of form can be maintained per disk, which seems a bit wasteful of disk space; however, this cuts down on the likelihood of errors. The programs can search any combination of fields at one time. If the form is developed with sorting in mind, the program can sort more than one field at a time.

* * * * *

Title: PFS:Graph

Source: Software Publishing

Cost: $175 ((as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 64K, 2 disk drives, graphics capable printer with graphics interface, color monitor preferred but not required for monochrome display

Description: PFS:Graph produces line, bar, and pie graphs in monochrome or color. While true text is not available, the high-resolution graphics text generator provides a labeling capability for this program. Data stored on PFS:File can be used to generate graphs, or data can be specified separately. Pictures are saved as binary files that can be "dumped" onto graphics-capable printers.

* * * * *

Title: Property Listings Comparables

Source: Realty Software

Cost: $325 (as 12/1/83)

Hardware Requirements: IBM PC, disk drive, printer

Description: This package provides a system for the maintenance of property listings and comparable recent sales. It allows for the selection of appropriate listings by price range, number of bedrooms, number of units, city, and zone. One characteristic or a combination of characteristics can be specified by the prospect and the program selects all appropriate listings. Performance selections can be made based on a maximum gross factor, maximum price per square foot of improvements, and minimum cash flow required, in any combination.

* * * * *

Title: The Prospector

Source: Executive Data Systems

Cost: $300 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, disk drive, printer

Description: This is a sales prospect and follow-up organizer. It supports sales efforts using personal sales calls, keeps a file on customers, assists in direct mail advertising by printing mailing lists, separates regular clients from prospects, maintains supplier lists, and prints mailing labels. All lists can be broken down into subsets based on user-specified criteria.

* * * * *

Title: Restaurant Inventory Control and Cost Analysis Program

Source: Advanced Analytical Computer Systems

Cost: Contact vendor for quote

Hardware Requirements: IBM PC, 128K, 2 disk drives, 132-column printer

Description: This program maintains a perpetual inventory and supply reorder list and provides the capability to conduct a food cost analysis, menu item analysis, sales mix analysis, and a current menu item cost analysis. As the inventory control detects an upcoming shortage, a list of food item reorders is generated along with printed purchases orders. This program can be used in all types of restaurants and bars. Vendor/supplier lists are maintained and can be updated as needed.

* * * * *

Title: Sales Analysis

Source: Micro Business Software

Cost: $1,000 for source code: $200 for object code (as of 12/1/83)

Hardware Requirements: Apple II, II+, and IIE with CP/M only with 4 disk drives, IBM PC 64K using PC DOS with 4 single-sided or 2 double-sided disk drives, printer

Description: This package is designed for use with the vendor's Accounts Receivable and Order Entry/Inventory Control packages. For that reason, it is not a stand-alone system. This system produces the sales analysis reports by customer, customer category, state, item, item category, sales person, and for total sales.

* * * * *

Title: Sales Analysis

Source: Radio Shack

Cost: $299 for Model 11 and 12: $399 for Model 111 (as of 12/1/83)

Hardware Requirements: TR-80 Model 11 or 12 with 4 disk drives or hard disk, Model 16 with 3 disk drives or hard disk, 15" printer with tractor feed

Description: This is the final component in the complete accounting system from Radio Shack. It takes data from the customer file of the Accounts Receivable package or the item file of the Order Entry/ICS program. Analyses include sales activity by customer, sales activity by type of customer (determined by user), sales volume by customer, sales volume by salesperson, summary by state, summary by item or item category, and total sales volume.

* * * * *

Title: Scripsit

Source: Radio Shack

Cost: $399 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 11 or 12, disk drive, printer

Description: Scripsit is Radio Shack's answer to AppleWriter II and IBM's EasyWriter. It is a very good general purpose word processing system and includes all of the expected features. In addition, this program allows for underlining, subscripts, superscripts, and boldface type. Scripsit is a screen-oriented system, which means that the printed material will be essentially identical to the screen version, with the exception that formatting of printed copy can be done by means of commands embedded in the text itself.

* * * * *

Title: The Store Manager

Source: High Technology Software Products

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, 2 or 3 disk drives

Description: The Store Manager accepts order entries and maintains continually updated inventory on a maximum of 1,160 different items. It provides up-to-the-minute sales totals for the entire store or by item. In addition, it prints customer invoices, price quotations, receiving reports, packing slips, purchase orders, and expense vouchers. The program is menu driven and uses plain English to communicate with the user. Also available on command are inventory reports, reorder lists, item movement report, item turnover report, alphabetized listings, and presorted mailing lists.

* * * * *

Title: Tax Decisions

Source: Eagle Software Publishers

Cost: $299 for IBM; under $200 for Apple and TRS-80 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, TRS-80 Model 1, 11, 111 using CP/M, IBM PC, printer

Description: Tax Decisions was developed by tax professionals to be used by members of the profession. It performs most routine tax number crunching to allow the tax planner to concentrate on tax planning instead of computation. As with any tax program, the user should make sure the program version is the current one and conforms to present tax laws and regluations.

* * * * *

Title: Time Manager

Source: Image Computer Products

Cost: $150 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, 48K, printer (an internal clock and 80-column board are optional)

Description: Time Manager provides a personal or professional desk calendar. It generates daily agenda and "to do" lists. Uncompleted items move to the next day. Items are given priority according to a user-assigned code. Permanent dates such as holidays need to be entered only for the first year; they will appear each year thereafter.

* * * * *

Title: Time Manager

Source: IBM

Cost: $100 (as of 12/1/83)

Hardware Requirements: IBM PC with 64K, 1 or 2 disk drives, printer

Description: A simple-to-use program, Time Manager provides the user with a computerized desk calendar. Not only does it maintain a schedule of appointments, it provides daily agenda, a daily "to do" list, and an automatic reminder of important deadlines. It tracks events and expenses individually or by category; data can later be collected in several categories to support, for instance, tax records.

* * * * *

Title: Time Manager

Source: Radio Shack

Cost: $99.95 (as of 12/1/83)

Hardware Requirements: TRS-80 Model 1 and 111, 48K, disk drive, printer optional

Description: This relatively simple program maintains a personal or professional appointment calendar and provides a reminder for scheduled meetings and deadlines. In addition, Time Manager provides a permanent record, daily "to do" lists and agenda, and uncompleted items are automatically transferred to the next day's list.

* * * * *

Title: VersaPayroll

Source: H&E Computronics

Cost: $99.95 (as of 12/1/83)

Hardware Requirements: IBM PC, 2 disk drives, printer, 48K

Description: This is one component of the complete five-program VersaBusiness System, but can be operated as a stand-alone system. It maintains complete payroll and financial data on all employees of a small business. It includes current tax tables that can be manually updated as the rates change. The program computes payroll, prints the checks, updates the payroll accounts, and prints out employee data sheets and quarterly reports. At year-end, W-2 forms are provided. A thirty-day money-back guarantee is included with the purchase.

* * * * *

Title: VisiCalc

Source: VisiCorp

Cost: $200 for IBM; $250 for Apple; $299 for TSR-80 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIE, IBM PC, TRS-80 Model I, II, III, disk drive, printer

Description: The all time best seller among electronic spreadsheets, VisiCalc provides a maximum of 254 rows by 63 columns. Each cell can accept a number, label, or a formula that automatically calculates a numerical entry for the user. Formulas can be specified for individual cells or replicated easy for segments or complete rows or columns. The excellent documentation includes tutorial materials to help the user learn the package's features and commands, which do tend to be a bit cryptic and confusing at times. Electronic spreadsheets are very useful for making economic projections, alternative comparisons, and answering "what if" questions using budget or production data. Routine calculations and recalculations resulting from additions or changes in any data cell are done automatically, resulting in greater accuracy and less work than manual spreadsheet work.

* * * * *

Title: VisiDex

Source: VisiCorp

Cost: $250 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe with 48K, IBM PC with 64K, disk drive, printer

Description: VisiDex is a data and time management system. It allows the user to organize business or personal information and provides a file maintenance system. Names, addresses, phone numbers, dates, "to do" lists, records of decisions and meetings, highlights of reports, tax information, and stock can be maintained. The program allows unlimited cross-referencing. A daily calendar is provided for maintaining appointments and for keeping track of upcoming events.

Title: VisiSchedule

Source: VisiCorp

Cost: $300 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe with 48K, IBM PC with 64K, at least 2 disk drives, printer

Description: Complex project planning and scheduling are done with relative ease using VisiCorp's new VisiSchedule. Critical time paths are determined, automatically based on input characteristics. It allocates time, costs, specifies start and end time, vacation days, intermediate deadlines, and project slack time for machines and workers. This is a powerful simulation-modeling tool for decision making as well, because the user can address "what if" questions simply by changing input characteristics.

* * * * *

Title: VisiTrend/Plot

Source: VisiCorp

Cost: $300 (as of 12/1/83)

Hardware Requirements: IBM PC, 128K, disk drive, color graphics monitor adapter, color monitor, printer with graphics capability and graphics dump interface

Description: VisiTrend/Plot produces professional quality graphic displays of line, bar, pie, and hi-low charts, with IBM's superior graphics and mixed text capability. It accepts data manually or from VisiCalc files. Linear multiple regression projections are calculated from VisiCalc data and the projections are graphically presented. Trend projection is done with straight line, smoothing, or moving averages.

* * * * *

Title: WordStar

Source: MicroPro International

Cost: $495 (as of 12/1/83)

Hardware Requirements: Apple II, II+, IIe, with CP/M capability and 80-column card, IBM PC, 48K, 1 or 2 disk drives, printer

Description: This is generally regarded as one of the better commercial quality word processing systems, although somewhat complicated to master. WordStar is a screen-oriented system, which means that the text will appear on paper as it appears on the screen. While this decreases the amount of text that can be stored as a single file, the advantages of this system are obvious. WordStar is the single most popular word processing system for the Apple.

from Microcomputers in Small Business
Management, The National Center for
Research in vocational Education, The Ohio
State University, 1960 Kenny Road,
Columbus, OH 43210, 1984.

Goal 13.0 To understand new products, procedures, and equipment

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__ MA 2.026	Feasibility Checklist for Starting a Small Business of Your Own
__ MA 2.027	How to Get Started With a Small Business Computer

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* 1 to 24 pages
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__ 10 Retailing
__ 12. Statistics and Maps for National Market Analysis
__ 13 National Directories for Use in Marketing
__ 15 Recordkeeping Systems—Small Store and Service Trade
__ 18. Basic Business Reference Sources
__ 20. Advertising—Retail Store
__ 31 Retail Credit and Collection
__ 37. Buying for Retail Stores
__ 72. Personnel Management
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